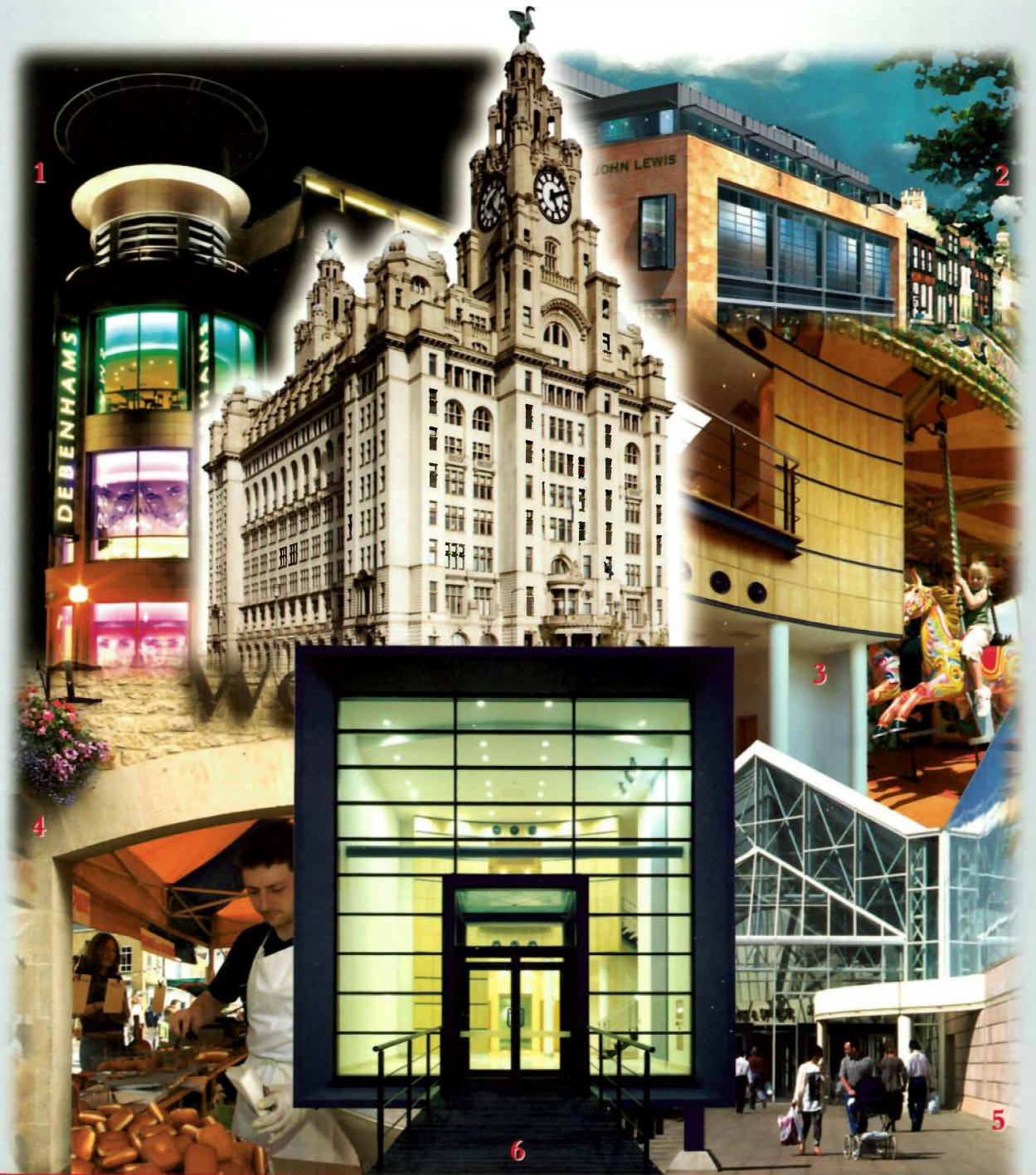


USS

UNIVERSITIES
SUPERANNUATION
SCHEME LIMITED



Report and Accounts

for the year ended 31 March 2003

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 2003 of over £15 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 99 Bishopsgate, 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	20
Finance & General Purposes committee	28
Audit committee	29
Remuneration committee	30
Joint negotiating committee	31
Advisory committee	32
Statement of investment principles	33
Membership statistics	38
University institutions	38
Non-university institutions	44
Summary of movements	50
USS accounts	51
Fund account	51
Statement of net assets	52
Notes to the financial statements	53
Statement of trustee's responsibilities	60
Independent auditors' report	61
Statements by the actuary	63
Five year summary	67
USS Ltd accounts	68
Report of the directors including the statement of directors' responsibilities	68
Statement of operating costs	70
Balance sheet	71
Cash flow statement	72
Notes to the accounts	73
Independent auditors' report	80

FRONT COVER

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

Properties within the USS fund:

- 1 - Midsummer Place Shopping Centre, Milton Keynes.*
 - 2 - Grand Arcade, Cambridge - proposed development.*
 - 3 and 6 - Stockley Park, Heathrow.*
 - 4 - Woolgate Shopping Centre, Witney.*
 - 5 - The Gyle Shopping Centre, Edinburgh.*
-

The year to 31 March 2003 has been another difficult year for final salary pension schemes. Whilst the membership of USS continued to grow, poor investment returns saw the value of the fund fall over the year for the third successive year. The scheme's active membership increased by 2.8% from 95,700 to 98,400 and there was substantial growth in the numbers of pensioners and those entitled to deferred benefits to 37,000 (up by 5.4%) and 51,400 (up by 3.8%) respectively. At 31 March 2003 the fund had total assets of £15.6 billion.

It was another poor year for pension fund performance generally. The fund's return for the year to 31 December 2002 of -16.7% was well below both price inflation and below its peer group average. The poor returns of the last three years have meant that over the longer term, the 10 years to 31 December 2002, the fund's performance is below its target although it still comfortably exceeds the assumptions used in the actuarial valuation of the scheme over that period.

The results of the last triennial actuarial valuation of the scheme as at 31 March 2002 were published during the year and revealed a small surplus of assets over past service liabilities of £162 million. The valuation came at a time when markets had fallen well below the levels of three years earlier and the consequent drop in the surplus from the previous triennial valuation meant that the management committee was unable to consider changing the rate of accrual of pension benefits or other improvements in benefits.

Markets continued to fall throughout 2002 and into 2003 and the management committee has decided that it is appropriate this year to publish more detailed information following the actuary's interim review at 31 March 2003, both in its own report and in the report from the actuary, than has been given following such reviews in the past. The interim review at 31 March 2003 showed the fund to be in deficit but using the very prudent long-term valuation basis and relatively conservative assumptions as were used at the last triennial valuation. In particular, the valuation basis made no allowance when valuing the past service liabilities for any expected out-performance of the USS assets over the return available on UK government fixed interest stocks. Typically scheme actuaries incorporate allowances of up to 2% per annum to allow for such expected equity out-performance. Had a 2% out-performance assumption been built into the assessment of the liabilities, the 31 March 2003 interim review would have reported an essentially fully funded position. The management committee continues to monitor the funding position of the scheme closely in conjunction with the actuary.

In Liverpool, the pensions administration software which was installed in 2000 continues to be robust and has helped the office to maintain levels of service at a standard which I believe to be generally satisfactory. Plans are in place, however, to improve continually the systems that we use

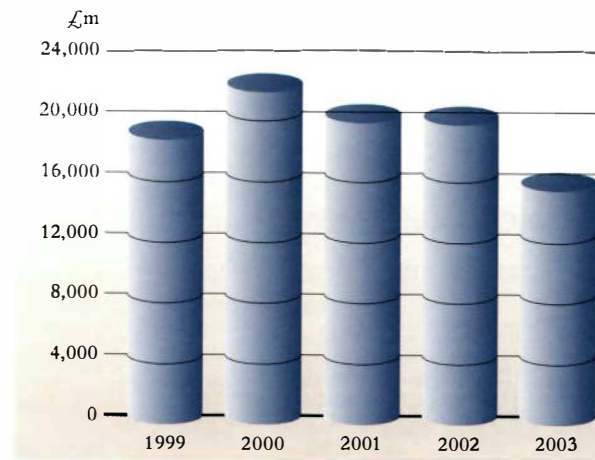


Graeme J Davies
Chairman

with new pensions payroll software scheduled for November 2003 in advance of a full upgrade of the pensions administration software, probably in 2005. At the same time, the USS website has been completely redesigned and is being further developed to provide institutions with access online to view their members' data and, ultimately, to provide members with similar online access to view their own data.

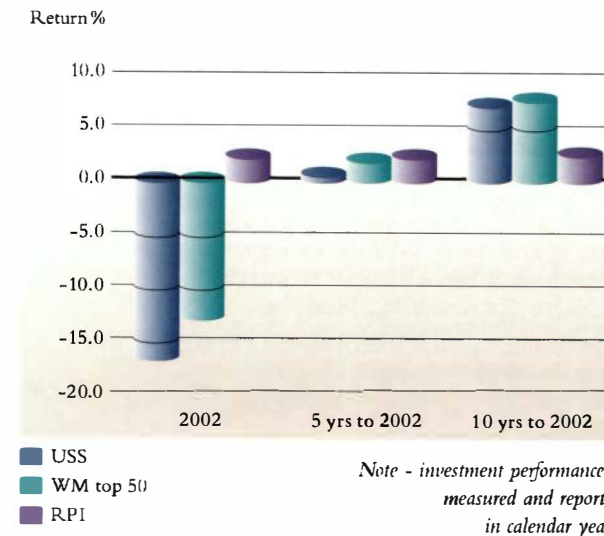
Finally, I repeat the message which I made in this statement last year that I want to reassure members that, in the opinion of the management committee, the institutions that participate in USS remain fully supportive of the provision of a final salary scheme.

FUND



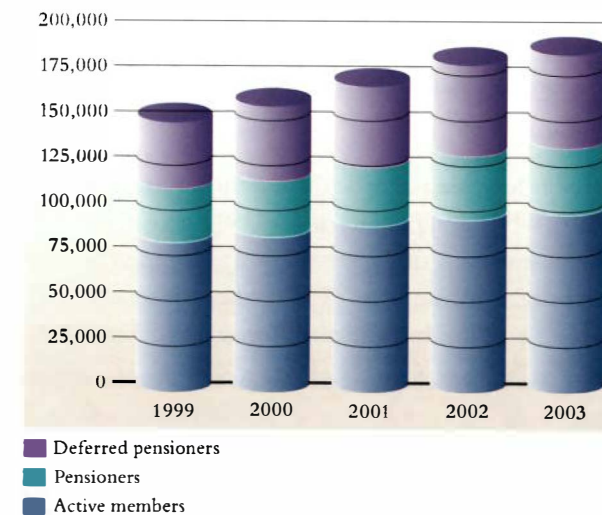
The fund's investments have fallen from £18.7 billion in 1999 to £15.4 billion as at 31 March 2003. Poor investment returns have seen a decrease in the value of the fund's investments for the third year running. More details are given in the investment committee report on page 20 and in the five year summary of the fund accounts on page 67.

PERFORMANCE



Poor investment returns for the last three years have seen the fund underperform the WM 50 average over both five and ten years. The total return for the fund in 2002 was -16.7%, behind both price inflation and the WM 50 benchmark return. Over five years the fund has underperformed the WM 50 average by about 1.4% pa while over ten years it has underperformed the WM 50 average by about 0.5% pa. Over ten years, however, the fund return has comfortably exceeded RPI. More details are given in the report of the investment committee on page 20.

MEMBERSHIP



The membership of the scheme continues to grow steadily. As at 31 March 2003 the total membership was 186,800 an increase of 3.6% from last year and 25% from four years ago. More details are given in the five year summary of the fund accounts on page 67.

PRINCIPAL OFFICERS AND ADVISERS

The principal officers and advisers of the trustee company at 1 August 2003 are:

<i>Interim Chief Executive</i>	T H Merchant MBA BSc
<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 MCMi
<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 LLP (appointed 11 April 2003) PricewaterhouseCoopers (resigned 27 March 2003) 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>	State Street, 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>Website design</i>	AHC Consultants Ltd
<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	Email: postbox@usshq.co.uk
Royal Liver Building, Liverpool L3 1PY	Tel: 0151 227 4711 Fax: 0151 236 3173

The membership at 31 March 2003 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, H R Jacobs

Finance & General Purposes Committee

Appointed by the management committee

C D Donald (Chairman), L Collinson, Mrs Angela Crum Ewing,
Professor Sir Martin Harris, H R Jacobs, M S Potts, J W D Trythall,
Baroness Warwick of Undercliffe

Investment Committee

Appointed by the management committee

A S Bell (Chairman), C D Donald, C E Hughes, H R Jacobs,
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), A S Bell, Mrs Angela Crum Ewing, C D Donald,
M S Potts, J W D Trythall, Baroness Warwick of Undercliffe

Advisory Committee

Appointed by UUK

A D Linfoot (Chairman), Dr A Bruce, D W Sims

Appointed by AUT

Ms J McAadoo, 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 2003



Professor Sir Graeme Davies, Chairman

Graeme Davies (66) 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, Auckland and Edinburgh universities. He sits on the Scottish Science Trust and the board of Universities UK. He was appointed chairman of USS Ltd in 1996. He takes up the vice-chancellorship of the University of London in October 2003.

USS LTD DIRECTORS



Colin D Donald

Colin Donald (68) 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 (61) retired in March 2002 after 14 years as group managing director of Standard Life. He is a director of Dunfermline Building Society, 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 (55) 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 Sir Martin Harris

Martin Harris (59) 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 deputy chair of the North West Development Agency and he has been a director of USS Ltd since 1 April 1991.



J W D Trythall

Mr J W D Trythall (Bill), 58, 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.



Howard Jacobs

Howard Jacobs (50) became a co-opted member of the board on 1 October 2002 immediately after his retirement from the solicitors, Slaughter and May, where he had been a partner since 1986, specialising in employment law and pensions law. He is now a consultant with that firm and does other governance-related advisory work. He is a vice-president of ICAN the national educational charity for children with speech and language difficulties.

Leonard Collinson

Leonard Collinson (69) is the founder and a director of Collinson Grant Group and chairman of Central Plastics and the publisher, Industry Northwest. Also, he is National Chairman of the Forum of Private Business and the Small Business Research Trust and a member of the Regional Economic Forecasting Panel. He is a Deputy Lieutenant for the County of Merseyside and has been a director of USS Ltd since February 1989.

Professor Charles Sutcliffe

Charles Sutcliffe (55) 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.

Michael Potts

Michael Potts (64) 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 (73) 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.

Baroness Warwick of Undercliffe

Diana Warwick (58) 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.



MANAGEMENT COMMITTEE

The management committee submits its twenty-eighth annual report on the progress of USS. Separate reports on the activities of the other main committees of USS follow this report.

Committee members

There was one change in membership of the committee during the year. Howard Jacobs was appointed on 1 October 2002 to fill the vacancy for a co-opted director following the retirement of Lord Mark Fitzalan Howard on 31 March 2002.

Under the Articles of Association 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). Three directors are appointed by the Association of University Teachers (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 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 management committee has decided that the reappointment of each co-opted director should be subject to annual review after they have served a total of nine years in aggregate and there will be an annual ratification for directors aged over 70, including the pensioner director. A three year term is considered appropriate in order to permit newly appointed directors time in which to get to know the business and then to contribute fully according to their specific skills and experience over the remaining term of their office. The Articles of Association also provide for the removal of any director where (in relevant circumstances) he or she is prohibited from acting as a director.

Institutions

At 31 March 2003 there were 330 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 189 other institutions.

Changes in institutions participating occurred as follows:

New participating institutions

- AGCAS *
- Consortium for Higher Education Energy Purchasing
- Courtauld Institute of Art *
- Cranfield Innovative Manufacturing Ltd
- Duke Corporate Education Ltd
- Euspen Ltd
- Intellectual Property Ltd *
- KidsCan Ltd
- Liverpool Hope University College *
- Liverpool John Moores *
- Manchester Medical Society

National Centre for Business and Sustainability *
Queen Margaret University College *
Royal Agricultural College *
Scottish Further Education *
Stockholm Environment Institute
UKCOSA
University of Luton *
Ushaw College *

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

Institutions which ceased to participate:

Company of Biologists Ltd
Institute for Public Policy Research
Museum Documentation Association
University of Leeds Innovations Ltd
University of Swansea Students' Union

Scheme membership

During the year 13,882 new members joined the scheme and at 31 March 2003 the total membership, including pensioners and those entitled to deferred benefits, was 186,800 compared



Grahame Weaver, Kieran Cliffe, Karl Roberts
and Kevin Rogers - Pensions Support Department.

with 180,300 a year earlier. Further details of the changes in membership during the year are contained in the section "Membership Statistics" on page 38 and over the five years ended 31 March 2003 in the Summary on page 67.

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

Members are now able to share pension scheme benefits with their ex-spouse in the event of divorce.

There were more than 1,600 requests

for information up to 31 March 2003 with 30 court orders being received for implementation. Forty four ex-spouse participants now have benefits within the scheme in their own right as a result of pension sharing.

Expansion and flexibility

As was reported last year, institutions have shown interest in bringing their non-academic pension schemes into USS. Around 27 institutions have indicated some degree of interest. Preliminary actuarial costings have been provided for six schemes at their request.

The funding policy adopted over a quarter of a century has delivered a robust and strongly funded scheme and sustainable contribution requirements despite pressures, from time to time, on final salary arrangements. The proper protection and defence of existing members and their employer institutions is not, however, incompatible with a pragmatic admission policy which facilitates (if not encourages) new groups of members to enter USS.

As a further measure, officers have been reviewing with the scheme actuary specific points regarding eligibility where problems have been highlighted by institutions. It is hoped that, where practicable, recommendations will be presented to committees for approval by the end of 2003.

Green paper and tax simplification

During the year the government presented a number of papers for consultation on the possibilities of changing and simplifying the regulation of pension arrangements in the UK. USS Ltd responded to these consultation papers and is now involved in further consultation. Copies of the responses are on the USS website. The new arrangements for regulation are expected to be implemented in 2005, and discussions are being arranged with institutions, UUK, the Funding Councils and the AUT on the changes that may be necessary or desirable to the rules and administration of USS from that date.

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 2003, twenty nine deeds of amendment. Three deeds of amendment were executed during the year. Details of the rule amendments are given in the report of the joint negotiating committee on page 31.

At its meeting held on 27 March 2003 the management committee agreed the terms of reference for a newly constituted rules committee, comprising a co-opted director (and chairman), a UUK nominee and an AUT nominee. The committee reviews all aspects of the rule amendment process and is specifically empowered to recommend the terms of particular rule amendments to the management committee.

Working parties

Over the year a number of working parties were set up to review and make recommendations on particular issues:

Ill-health early retirement - This working party reviewed and produced revised administration procedures, guidelines and application forms for ill-health retirement applications. The recommendations were approved by the management committee and have been implemented. Additionally, following a working party recommendation, the appointment of a scheme medical adviser was changed from a sole appointment to a panel of occupational health experts. The appeals procedure was revised to include a review of the medical evidence by an independent expert. A final report from the working party on benefit calculations is due to be presented for approval in September 2003.

Regular and irregular employment - This working party has reviewed the administration and benefit calculations for members with irregular employment with a USS institution where there may or may not also be a regular employment with another USS institution. Recommendations are expected to be put to the management committee by the end of 2003.

Additional voluntary contributions - triennial review - The contract with the Prudential for investment of additional voluntary contributions (AVCs) is reviewed triennially. The report is expected to be given to the management committee at its meeting in September 2003.

Investment - There have been two working parties operating during the year on investment matters, one on the Myners Review of Institutional Investment and one on the investment management structure. These are referred to under investment policy below.

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). USS pensions were increased by 1.7% on 21 April 2002.

On 21 April 2003 pensions which satisfied certain qualifying conditions and began before 23 April 2002 were also 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-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.

Contribution rates

The rates of contributions payable by members and institutions between 1 April 2002 and 31 March 2003 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

The last full actuarial valuation of the scheme was carried out as at 31 March 2002. This revealed a small surplus of assets over past service liabilities of £162 million and institutions' contributions were maintained at 14%.

The results of the actuarial valuation were discussed at the meeting of representatives of USS institutions which was held in London on 5 December 2002. The full text of the actuary's report to the management committee has been printed and copies were sent to all institutions in March 2003. It is also available on the USS website.

No changes were made to the funding objective or the purpose of the valuation or the method of valuation which was a market value approach. 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 salaries 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 5% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum.

The actuary updated the mortality assumptions for deaths in retirement and maintained the allowance for ill-health retirements to reflect the experience since the last valuation.

The result of the actuarial calculations is that the scheme has moved from having a past service surplus of assets over liabilities at 31 March 1999 of £1,443 million to a surplus of £162 million at 31 March 2002. This surplus represents 1% of the past service liabilities of the scheme. There is a surplus of £75 million attributable to the supplementary section leaving a past service surplus of £87 million in the main section.

The institution contribution rate required for the future service benefits alone is 14.25% of salaries. Based on the method and assumptions used it was agreed that the institutions' contribution rate would remain at 14% of salaries. Applying this reduction in contribution rate over the average remaining working lifetime of the current active members will utilise £82.5 million of the past service surplus leaving a residual past service surplus of £4.5 million in the main scheme to be carried forward.

The outcome of the triennial valuation was such that the trustee company decided that it was not appropriate to consider changing the rate of accrual of pension benefits or other improvements in benefits.

Additionally the actuary has carried out an actuarial review as at 31 March 2003 which examines the progress of the scheme since the last valuation. A statement by the actuary on the review is shown on page 63. It draws the conclusion that the overall financial position of the scheme has weakened since the 2002 valuation. The actuary recommends that no change should be made in the institutions' contribution rate.

In the light of falling markets the trustee company has monitored the funding position since the formal valuation. The market has proven to be particularly volatile in the recent past, falling to its nadir on 12 March 2003 but since recovering in the UK by the end of July, by some 30%. This illustrates the extreme volatility of reported funding levels dependent on the actual valuation date chosen. The interim review, as at 31 March 2003, showed a funding level of about 70% on a very prudent long-term valuation basis. The valuation basis made no allowance when valuing the past service liabilities for any expected out-performance of the USS assets (which were predominantly invested in equities) over the return available on UK government fixed interest stocks. Typically scheme actuaries incorporate allowances of up to 2% per annum to allow for such expected equity out-performance. Had a 2% out-performance assumption been built into the assessment of the liabilities the 31 March 2003 interim review would have reported an essentially fully funded position.

Statutory funding levels were still adequately met, with Minimum Funding Requirement (MFR) coverage of 105%.

USS has a very positive cash flow and the valuation assumptions are very conservative. The USS contribution and investment strategy has historically been based on the long-term assumption that over time equities will outperform gilts. Whilst the large surpluses we have seen in recent years are no longer there, the trustee company considers that the prudent funding assumptions and consistent payment of employer contributions, combined with strong, positive cash flows support maintenance of the current 14% institutional rate of contribution, pending a further review at the next formal valuation date as at 31 March 2005. Until then the management committee will continue to monitor closely the funding position of the scheme.

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.



Office Services Department

The accounts of the trustee company show a decrease in operating costs from £21.4 million in 2001/2002 to £21.1 million in 2002/2003.

Included in the totals for both years were recoveries of costs in prior years. Excluding these recoveries, the total operating costs were £21.2 million for the year ended 31 March 2003 and £22.9 million for the year ended 31 March 2002. This represents a 15.8% decrease in investment management costs and a 12.4% increase in other administration costs.

It was reported last year that

action had been taken to reduce levels of work in hand in the Liverpool office and ensure satisfactory levels of service. Satisfactory service levels were maintained during the year and further improvements to the scheme's administration introduced. A communications team was established during the year to improve the way that the trustee company communicates with its members and participating institutions. Tangible evidence of their success has been the introduction of a new USS website which has enjoyed significantly more visitors than the old site.

Costs arising from the introduction of the communications department have contributed to the increase in administration costs this year. Computer costs have also increased during the year, with an upgrade to the Oracle payroll, increased maintenance costs (from a very low base) on the pensions administration system and increased depreciation on computer systems following the purchase of new equipment for the London office. The increase in professional fees reflects legal advice obtained on a range of issues during the year including the Myners Review, the surrender of the life assurance policies from Equitable Life, work arising from employment tribunal cases relating to irregular employment and the introduction of new rules particularly those in respect of part-time employees, as well as the cost of the triennial actuarial valuation completed during the year.

Increased staff in the London Investment Office meant that our premises at Angel Court were no longer able to accommodate the internal investment team. For operational reasons it was determined that larger premises in the City, with all staff located on a single floor, were necessary and in October 2002 the London Investment Office relocated to 99 Bishopsgate. Higher rental costs, together with a break penalty for early surrender of the lease on Angel Court, resulted in an increase in premises costs compared with the previous year.

Investment management costs have fallen from the level of previous years mainly as a result of the relatively poor performance (compared with the previous year) of one of the external investment managers whose fee is performance related.

Full details regarding the operating costs and a review of the activities for the year are given in the Directors' Report & Accounts on page 68.

Investment policy

The arrangements for management of the assets and custody, together with the approximate proportion managed by each manager at 31 March 2003, are as follows:

- (a) 52.3% is managed internally by the trustee company's London Investment Office (with JP Morgan as custodian), of which 41.1% are securities and 11.2% are property assets;
- (b) 8.2% is managed by Baillie Gifford (with State Street as custodian), 8.4% is managed by Capital International (with State Street as custodian) and 8% is managed by Schroder Investment Management (with State Street as custodian);
- (c) 20.9% 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 JP Morgan as custodian);
- (d) 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) 1.1% 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) 0.1% 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.

State Street became custodian for the externally managed assets in January 2003 following its purchase of the custody business of Deutsche Bank.

The year to 31 December 2002 was another poor year for pension fund performance generally with negative returns for the average fund for the third successive year. It was also another poor year for the fund. The fund's performance for the year failed to meet its target, ranking in the 85th percentile of the WM 50.

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 last year, a working party had been set up under the chairmanship of the chairman of the investment committee to consider the changes that should be made to ensure USS Ltd complied fully with the recommendations of the government arising from the Myners Review of Institutional Investment. The working party reported to the management committee in November 2002 and was able to report that USS Ltd complied fully with all the government's recommendations.



Accounts Department

Changes arising from the recommendations of the working party included a revision to the fund's investment objective and to the investment benchmark and performance measurement targets of the fund and of each of the investment managers with effect from 1 January 2003.

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 has taken 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 statement was revised during the year to reflect changes arising from the recommendations of the Myners Review Working Party and the final text, which was agreed following consultation with the participating employers, appears on pages 33 to 37.

The paragraphs on corporate social responsibility have been simplified from those which were included in the original statement which was first 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 website, as is the full statement of investment principles.

The fund's current investment management structure has now been in place for five years and a further working party has been set up to review the structure and recommend changes to the management committee with a view to any revised structure being in place by 1 January 2004.

Scheme auditor

PricewaterhouseCoopers transferred its business to a limited liability partnership called PricewaterhouseCoopers LLP, incorporated under the Limited Liability Partnerships Act 2000, on 1 January 2003. PricewaterhouseCoopers resigned on 27 March 2003 and the trustee has appointed PricewaterhouseCoopers LLP to fill the vacancy in the office of scheme auditor with effect from 11 April 2003.

As required by the regulations made under the Pensions Act 1995, PricewaterhouseCoopers confirmed in its notice of resignation that it knew of no circumstances connected with the resignation that significantly affected the interests of the members, prospective members or beneficiaries of the scheme.

Corporate governance

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

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

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, generally on a quarterly basis, from the other main committees: the finance & general purposes committee, the investment

committee, the audit committee, the remuneration committee, the joint negotiating committee and the advisory committee. The functions of these committees are set out in the reports which follow this report.

Internal audit within the trustee company 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 of the risks facing the organisation and the audit programme is determined 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 from 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 internal control procedures such that they fully comply with the Turnbull Guidance in the Combined Code on Corporate Governance.

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.



Linda Saunders, David Stevens and Dorothy Lafferty -
Training Department.

The Universal Pensions Management (UPM) software developed by Comino plc has proved to be robust, with no downtime during the year occurring as a result of software problems. The implementation of UPM has enabled the Liverpool office to deal with a greatly increased volume of work and improve on performance standards.

USS Ltd has contracted with Comino plc for the provision of its pension payroll package, which it is planned to implement during November 2003. Following the installation of the payroll software, work will commence on upgrading the UPM

software. The new version of UPM will integrate with the payroll software and will also provide a framework which will facilitate the development of web-based processes.

The annual meeting with institutions' representatives took place in London in December 2002 and a full report of the proceedings is available on the USS website.

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

During the year there were 19 instances of late payment of contributions by institutions. Of these 14 related to late payment of member AVC contributions to the Prudential, three related to late payment of premature retirement scheme contributions and two were late payment of employee and employer contributions. Of these, nine were reported to the Occupational Pensions Regulatory Authority (OPRA) jointly by the trustee company and the scheme actuary. The auditor, PricewaterhouseCoopers LLP, however, 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 very shortly after the due date.

The most frequent instances of late payments of contributions which have been reported to OPRA have been late payment of AVCs to the Prudential. A revised schedule of contributions was published in March 2003 and AVCs are no longer included in the schedule. However, the trustee company intends to continue to report institutions to OPRA where their payments of AVCs to the Prudential are consistently late.

Dispute resolution procedures within USS Ltd provide for the chief pensions manager, on the application of a complainant, to give a decision on a dispute and for the trustee or managers, on the application of the complainant if they are unhappy about that decision, to review the



Pensions Department

matter in question and either confirm or alter the decision. The review is undertaken by the advisory committee, augmented for this purpose alone by two members of the management committee (one nominated by UUK and the other by the AUT). This internal dispute resolution procedure was invoked 21 times during the year. 11 cases were considered during the year as second stage dispute reviews, and the stage one decision taken by the chief pensions manager was upheld in seven cases. In the four other

cases the enlarged advisory committee either did not uphold the stage one decision or used its wider powers and instead made a recommendation for an award to be granted.

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 have a stakeholder pension, or a combination of these arrangements.

Communications

In July 2003 a video presentation entitled *An introduction to USS* was issued to institutions. The content of the presentation was designed for new eligible employees and is intended for use as part of an induction programme. An electronic version of the administration handbook was

issued to institutions in November 2002. This e-manual is a comprehensive tool designed to assist institution administrators who deal with USS. It contains details of procedures, flowcharts, electronic forms and modellers.

A major project to develop the USS website commenced in August 2002. Anthony Hodges Communications (AHC) Ltd was appointed to design a new website that would contain all the existing information, but present it in a way that was easier to use, as well as adding new



Eifion Morris, Elanor Smith and Louise Jump -
Communications Team.

interactive features. After a consultation exercise involving representative groups of members, pensioners and institutions that took into account their different needs, a plan was agreed to develop the website in four phases, to be completed by October 2003.

Phase one was completed when the new look website went live in February 2003. The first phase provided institutions with access to the e-manual online and enabled active members to carry out benefit projection calculations using pensionable service data issued to all members in a service statement. Other features include access to standard forms, scheme literature and the rules.

The next major objective is to provide institutions with access online to their

members' data held by USS Ltd. There are significant security issues to be addressed and a pilot exercise involving a small number of institutions will be carried out later this year. If this is successful, the trustee company will investigate the possibility of providing members with access to relevant items of data.

A programme of visits to institutions to give presentations to members about the scheme has been implemented. Visits have been made to over 25 institutions addressing more than 2500 members and this programme is continuing.

Two administration seminars for staff at institutions who are new to USS were held during the year at the Liverpool office and two workshops were held for more experienced staff, one at King's College, London and one in Liverpool. The two institution advisory panels comprising administrators who regularly deal with USS met three times during the year. The panel members provide helpful advice and comments on a variety of subjects including proposed changes to procedures and forms. This year they have been involved in developing the e-manual and the new website.

Equitable Life Assurance Society

It was reported last year that the decision had been taken in July 2002 to surrender all the policies held with Equitable Life. Payment of £148.3 million in respect of the surrender value of all the with-profit policies was received in October 2002 and £9.5 million in respect of the non-profit immediate annuities was received in June 2003.

There remains a small number of non-profit policies (with a value of approximately £5 million) which ELAS had reinsured with Halifax Life. A surrender quote from Halifax Life was received for these policies in June 2003. Further information is being sought from Halifax Life before a decision on whether or not to surrender these policies can be made.

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

A copy of the statement on *Pension Trust Principles* issued by the Occupational Pensions Board (the functions of which were assumed by OPRA in April 1997) has been issued to each member of the management committee, 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 20 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

David Chynoweth decided to step down from his position as Chief Executive and retire at the end of June 2003. It was agreed that he would continue to act as a consultant to the company during the period to 31 March 2004, to assist the handover of duties to his successor. David has greatly enjoyed his career with the company and wishes it and his successor continued success in the future.

The trustee company is appreciative of the tremendous service David has given to the organisation since 1994 and is grateful for his continued availability for assistance in the transitional arrangements. The management committee wishes him well in what it trusts will be a long and happy retirement.

An interim chief executive, Tom Merchant, was appointed on 1 July 2003 to manage the company until David's successor is appointed.

The management committee also 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 2002/2003

- 2002 was the third consecutive poor year for investment returns, with the average fund in the WM 50, the survey of the performance of the largest pension funds, returning -12.9%. The return for USS was -16.7% giving a relative return of -3.8% against the WM 50 universe.
- Despite the poor results over the past three years, the positive longer term investment climate is reflected in results. The ten year return for the fund was 7.1% pa with average earnings growth over the same period of 4.1% pa and retail price inflation of 2.5% pa.
- Including net cash flow and capital movements, the value of the investments in the fund fell to £15.4 billion on 31 March 2003, compared to £19.8 billion a year earlier.
- A working party has been set up to consider the structure under which the fund's investments are managed and will report to the management committee by the end of the year.
- USS continues to take a proactive and leading stance on corporate governance issues.

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



Jo O'Brien, Senior Secretary
London Investment Office

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 2003 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.

Merrill Lynch Investment Managers and Henderson Global Investors Limited 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 2003, along with the comparative figures for the preceding year, is set out in the table on page 22. 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 56.

RESPONSIBLE INVESTMENT

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 which it believes will ultimately enhance the value of the fund. Three specialist advisors are dedicated to this 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 to the long term benefit of 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.



Donna Wheeler, Senior Secretary
London Investment Office

TOTAL INVESTMENTS OF THE FUND

Type of Investment	Fixed Interest £m	Index-Linked £m	Equities £m	Properties £m	Cash and Equivalent £m	31 March 2003 Total £m	Total %	31 March 2002 Total £m	Total %
Investments under the direct control of USS Ltd									
Quoted securities									
UK	–	23.5	2,901.1	–	–	2,924.6	19.0	4,036.3	20.4
Overseas	760.8	–	2,407.5	–	–	3,168.3	20.5	3,781.1	19.1
Property									
UK	–	–	–	1,716.0	–	1,716.0	11.1	1,666.9	8.4
Cash/stockbroker balances									
UK	–	–	–	–	137.5	137.5	0.9	376.0	1.9
Overseas	–	–	–	–	117.1	117.1	0.8	(63.6)	(0.3)
Sub-total	760.8	23.5	5,308.6	1,716.0	254.6	8,063.5	52.3	9,796.7	49.3
Investments managed internally on the basis of external advice									
Index fund									
UK	–	–	3,243.0	–	(25.1)	3,217.9	20.9	4,535.6	23.1
Investments managed externally (passive)									
Merrill Lynch									
UK	–	–	157.3	–	–	157.3	1.0	221.6	1.1
Henderson									
UK	–	–	167.1	–	(1.4)	165.7	1.1	235.9	1.2
Overseas	–	–	–	–	(0.3)	(0.3)	–	0.2	–
Sub-total	–	–	3,567.4	–	(26.8)	3,540.6	23.0	4,993.3	25.3
Investments managed externally (active)									
Baillie Gifford									
UK	111.6	59.9	646.8	–	94.3	912.6	5.9	1,073.9	5.4
Overseas	100.7	–	286.1	–	(28.2)	358.6	2.3	506.1	2.5
Capital International									
UK	192.1	186.4	515.4	–	12.7	906.6	5.9	1,123.9	5.7
Overseas	52.2	–	336.8	–	0.2	389.2	2.5	531.6	2.7
Schroder Investment Management									
UK	150.2	141.3	569.3	–	97.9	958.7	6.2	1,080.2	5.5
Overseas	–	–	315.8	–	(33.2)	282.6	1.8	481.2	2.4
Life assurance policies									
UK	14.4	–	–	–	–	14.4	0.1	170.7	0.8
Overseas	–	–	–	–	–	–	–	12.7	0.1
Sub-total	621.2	387.6	2,670.2	–	143.7	3,822.7	24.7	4,980.3	25.3
Total investments									
UK	468.3	411.1	8,200.0	1,716.0	315.9	11,111.3	72.0	14,521.0	73.3
Overseas	913.7	–	3,346.2	–	55.6	4,315.5	28.0	5,249.3	26.7
Total	1,382.0	411.1	11,546.2	1,716.0	371.5	15,426.8	100.0	19,770.3	100.0
Percentage at 31 March 2003									
UK	3.0	2.7	53.2	11.1	2.0		72.0		
Overseas	5.9	–	21.7	–	0.4		28.0		
Total percentage	8.9	2.7	74.9	11.1	2.4		100.0		
Total percentage at 31 March 2002									
	7.5	2.0	79.5	8.6	2.4				100.0

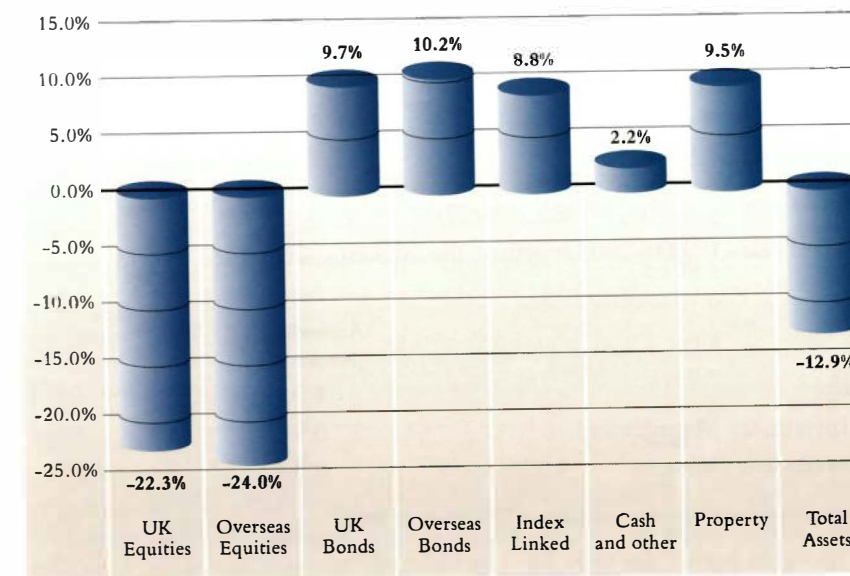
WM 50 PENSION FUND SURVEY FOR 2002

The fund participates in the above survey of pension fund performance. In 2002 the survey covered the largest pension funds with a combined value of £234 billion. These funds represent 68% of assets in the WM All Funds Universe.

Average pension fund results for 2002

Investment returns reported in the 2002 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 2002 in sterling (WM 50/Investment Property Databank)



USS RESULTS

The fund adopted the following performance target from 1 January 1999 to 31 December 2002. 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 and therefore increases 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.

The equity tilt contributed to the extremely poor performance of the fund in the three years from the beginning of 2000 to the end of 2002. The three year underperformance has resulted in the fund underperforming over the longer term period as well.

At the total fund level over the three year period since markets peaked at the beginning of 2000, asset allocation has adversely impacted on performance by 2.2% and stock selection by 0.7% compared to the average fund. In contrast in the three years to the end of 1999, stock selection contributed 1% pa to relative performance and asset allocation detracted 0.1% pa at the overall fund level.

Over the ten year period asset allocation has cost the fund 0.6% pa in relative performance entirely as a result of this poor three year performance. Stock selection over the ten year period is still positive.

During the three year period to the end of 2002, the LIO, which is measured against the WM 50 ex property universe, remained heavily weighted in equities and this asset allocation stance cost

the LIO portfolio 2.8% relative to the average fund. Stock selection also contributed negatively at -1.6% pa. However, in the previous three year period LIO asset allocation added 1.1% pa over the three year period ended 31 December 1999 and stock selection 2.2% pa.

We believe that the period to the end of 2002 represented the unwinding of excesses which built up during the 1990's and that financial markets are now in a more normal period where we would expect equities to provide some outperformance over other financial assets and the fund is structured to benefit from this.

Longer term results

Over the ten years to 31 December 2002, the total fund returned 7.1% pa, 0.5% pa behind the average for all funds in the WM 50 Universe survey. These figures compare with the average earnings increases of 4.1% pa and retail price index growth of 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 2002

Taking the five years 1998 to 2002 together, the following annualised returns (ex-property) were achieved:

	Annualised return %	WM50 survey ex-property percentile
Baillie Gifford	1.7	36
Schroder Investment Management	0.9	56
London Investment Office	0.3	70

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

Over the five-year period the total fund including property returned 0.5% pa, about 1.4% pa behind the average fund performance ranking it in the 75th percentile in the WM 50 survey.

Performance over the three years to 31 December 2002

Taking the three years 2000 to 2002 together, the following annualised returns (ex-property) were achieved:

	Annualised return %	WM50 survey ex-property percentile
Capital International	(7.5)	30
Schroder Investment Management	(8.0)	30
Baillie Gifford	(8.5)	35
London Investment Office	(12.6)	92

Over the three-year period the total fund including property returned -10.3% pa, about 2.8% pa behind the average fund performance, ranking it in the 80th percentile in the WM 50 survey.

Performance in 2002

The total returns (ex-property) achieved during 2002 were:

	Annualised return %	WM50 survey ex-property percentile
Baillie Gifford	(14.1)	44
Schroder Investment Management	(15.4)	55
Capital International	(16.2)	63
London Investment Office	(19.6)	91

The total fund including property returned -16.7% against the WM 50 average fund performance of -12.9%, ranking it in the 85th percentile.

PROPERTY

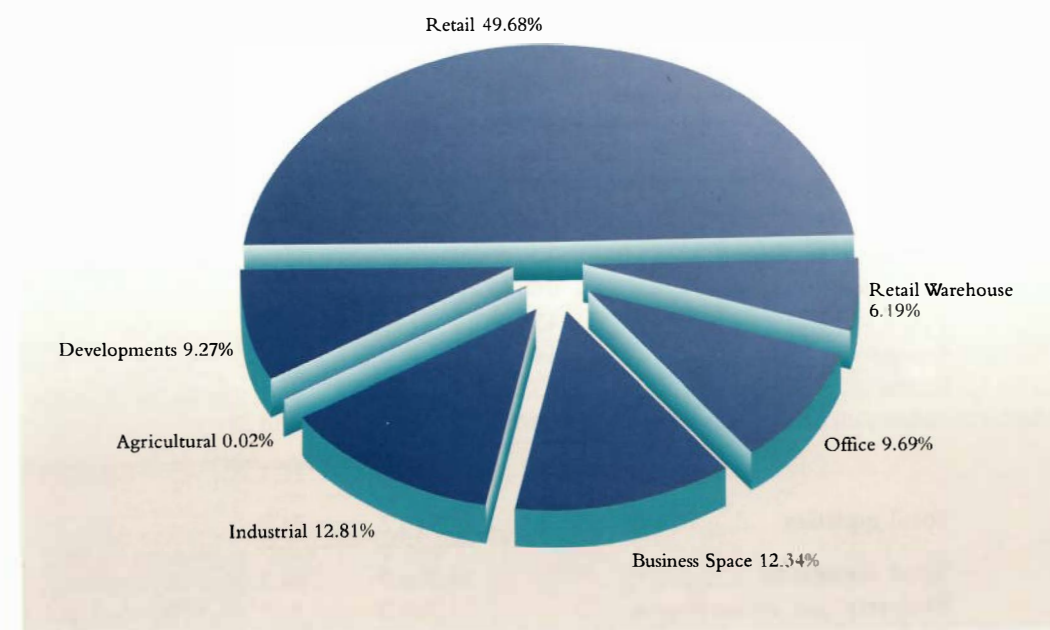
Property investment returned to favour during the year, and produced a total return of 9.5% for the year 2002. New investment was tempered to a degree by the increased property weightings in portfolios as equity markets continued to fall but property's relatively high running yield proved attractive to investors. Within the sector, retail significantly outperformed offices, a factor which helped the fund's portfolio to outperform the market, with a total return of 11.6% in 2002. The fund remains overweight in retail property.

The direct property portfolio and the property in one of the property partnerships were independently valued as at 31 March 2003 by Colliers Conrad Ritblat Erdman at £1,673.3 million and a breakdown by type and location is shown below:

	Freehold £m	Leasehold £m	Total £m	%
Retail	807.4	24.0	831.4	49.7
Retail Warehouse	103.5	-	103.5	6.2
Office	141.2	20.8	162.0	9.7
Business space	199.1	7.5	206.6	12.3
Industrial	191.8	22.5	214.3	12.8
Agricultural	0.4	-	0.4	0.0
Developments	119.7	35.4	155.1	9.3
TOTAL	1,563.1	110.2	1,673.3	100.0

The fund also had a total of £42.7 million invested in other indirect property vehicles as at 31 March 2003.

Distribution of property investment by type



Net income for the year to 31 March 2003 has decreased slightly from £92.4 million in the previous year to £92.3 million.

DISTRIBUTION OF ASSETS

The portfolio distribution as at 31 March 2003, along with the comparative figures for the preceding year, is set out below:

	2003			2002		
	£m	£m	%	£m	£m	%
UK fixed interest						
British Government						
Conventional	345.5			322.8		
Index-linked	411.1			397.6		
Other debentures & loan stocks	108.4			131.7		
		865.0	5.6		852.1	4.4
Overseas fixed interest						
North America	438.2			375.5		
Europe	159.4			103.3		
Japan	274.4			44.7		
Pacific	41.7			105.0		
International	—			304.7		
		913.7	5.9		933.2	4.8
Total fixed interest		1,778.7	11.5		1,785.3	9.2
UK equities						
Resources	1,258.6			1,843.4		
Basic industries	259.0			374.0		
General industrials	146.1			253.1		
Cyclical consumer goods	23.6			26.6		
Non cyclical consumer goods	1,570.4			2,205.2		
Cyclical services	1,098.7			1,733.1		
Non cyclical services	961.5			1,140.8		
Utilities	288.3			389.1		
Information technology	56.5			154.6		
Financials	2,041.1			2,833.6		
Collective investment schemes	102.4			298.5		
Managed funds	157.3			—		
Derivatives	236.5			—		
		8,200.0	53.2		11,252.0	57.4
Overseas equities						
America	960.0			1,305.0		
Japan	435.5			448.0		
Europe	1,149.7			1,611.2		
Pacific	653.4			821.6		
Other	147.6			233.2		
		3,346.2	21.7		4,419.0	22.6
Total equities		11,546.2	74.9		15,671.0	80.0
Total securities		13,324.9	86.5		17,456.3	89.2
Property (incl. indirect property)		1,716.0	11.1		1,666.9	8.5
Cash deposits		396.1	2.6		485.8	2.4
Stockbroker balances		(24.6)	(0.2)		(22.1)	(0.1)
Total investments (excluding life assurance policies)		15,412.4	100.0		19,586.9	100.0

LARGEST EQUITY HOLDINGS AS AT 31 MARCH 2003

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

		Value £m	%
1	Vodafone Group	651.3	4.2
2	BP	598.6	3.9
3	Glaxosmithkline	493.2	3.2
4	HSBC Holdings Ord	462.6	3.0
5	Royal Bank of Scotland Group Ord	321.4	2.1
6	Shell Trans & Trading Ord Reg	309.5	2.0
7	Astrazeneca Ord \$US0.25	279.1	1.8
8	Barclays Ord	203.8	1.3
9	HBOS	174.7	1.1
10	Diageo	173.2	1.1
11	Lloyds TSB Group Ord	131.1	0.9
12	Unilever	125.6	0.8
13	BT Group	106.6	0.7
14	Rio Tinto	98.5	0.6
15	BG Group	96.7	0.6
16	British American Tobacco	94.9	0.6
17	Tesco	86.2	0.6
18	National Grid Transco	84.7	0.5
19	BSkyB	75.0	0.5
20	Imperial Tobacco	69.7	0.5
		4,636.4	30.0

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

Signed on behalf of the investment committee

A S Bell
Chairman

FINANCE & GENERAL PURPOSES COMMITTEE

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

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

In essence, inter alia, it:

- Undertakes detailed work on behalf of the management committee and makes recommendations to it on major policy issues.
- Gives preliminary consideration to major issues which it is intended should be brought to the management committee.
- Oversees the detail of revisions to the USS Ltd risk management profile and policy and submits annual reports to the management committee.
- Gives detailed consideration to financial estimates and performance against estimates.
- Approves capital expenditure within limits agreed by the management committee.
- Monitors communication with, and levels and quality of service provided to, member institutions and individual members.

The committee currently comprises eight members, three of whom are UUK appointees to the management committee, two of whom are AUT appointees and three of whom are co-opted appointees. Of these latter three, one, Mr Colin Donald is its chairman and is the deputy chairman of USS Ltd.

During the year, the committee has met on five occasions and has considered matters such as new premises for the London Investment Office, the Prudential AVC scheme, ill-health retirement procedures, preservation and USS rules, expansion of USS and flexibility of arrangements, the actuarial valuation of USS and corporate performance of USS Ltd.

Signed on behalf of the finance and general purposes committee

C D Donald
Chairman

AUDIT COMMITTEE

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

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

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

In addition it:

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

The committee currently comprises five members, one of whom is a UUK appointee to the management committee, two of whom are AUT appointees and one of whom is a co-opted appointee. The committee is chaired by Dr Christine Challis, an independent appointment made by the management committee. During the year, the committee has met on four occasions. It has also met with the external auditor privately on one occasion without any officers being present. During the year, the committee has, inter alia:

- Received regular reports from both the compliance officer and the internal audit manager.
- Approved the introduction of anti-money laundering and whistleblowing policies.
- Overseen an audit of USS Ltd's procedures against USS corporate governance policy; and
- Expressed its satisfaction with USS Ltd's approach to identifying and dealing with risks to its business.

Signed on behalf of the audit committee

Dr C Challis
Chairman

REMUNERATION COMMITTEE

The remuneration committee (formerly known as the salaries sub-committee) was established in 1980. Its purpose is to consider and report on matters relating to the employment, remuneration and termination of contract for employees within USS Ltd. The committee sets salaries, pay levels and performance criteria by which all staff are rewarded, with the exception of the chief executive and the chief investment officer.

The salary of the chief executive is determined following discussions between the chairman of the remuneration committee and the chairman of the management committee. The salary of the chief investment officer is determined following discussions between the chairman of the remuneration committee, the chairman of the investment committee and the chairman of the management committee.

The committee's members are appointed by the management committee and currently comprises seven members. Of these, two are UUK appointees to the management committee, two are AUT appointees and three are co-opted appointees of whom one, Mr L Collinson, is the chairman.

The committee has met on four occasions during the year. Matters which have been considered are:

- 1 Salary awards to employees at the Liverpool and London offices;
- 2 A review of terms and conditions of employment at the London office;
- 3 Employment statistics within both the Liverpool and London offices;
- 4 Staffing within the communications department in Liverpool; and
- 5 Competency-based pay schemes.

As a result of its considerations, the committee is satisfied that the management committee can be assured that the present arrangements enable the trustee company to recruit, retain and motivate employees at both the Liverpool and London offices.

Signed on behalf of the remuneration committee

L Collinson
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 in conjunction with the rules committee and to consider any alterations proposed by the advisory committee arising out of the operation of the rules. The joint negotiating committee also has powers under the Articles of Association of the trustee company and under the scheme rules in connection with the appointment of co-opted directors and with the remuneration of directors.

There were no changes to the members of the committee during the year which met on four occasions in that period. Rule changes were considered by the committee which resulted in three amending deeds being executed, from the twenty-seventh to the twenty-ninth deeds of amendment. The most significant changes which these deeds introduced were:

- The twenty-seventh deed of amendment was executed on 1 November 2002 and provided the trustee company with an enabling power to apply a system of annual credits for USS members who hold a variable-time post concurrent with a regular employment. The deed of amendment also waived the restriction on pensioning a variable-time post where a regular post is held simultaneously at the same institution.
- The twenty-eighth deed of amendment was executed on 21 February 2003 and makes appropriate changes to the 1974 and 1991 rules of USS by clarifying the rights of deferred members to (amongst other things) dependants' pensions and to non-dependant widowers' pensions.
- The twenty-ninth deed of amendment was executed on 22 February 2003 and contains amendments to enable institutions to make a grant of compensatory service to an employee in response to a decision of an employment tribunal or court regarding access to membership of USS or where an individual and an institution agree to settle such a claim through the provision of additional compensatory service.

A working party of the JNC, dealing with employees who hold regular and irregular employments, has met on five occasions during the year. The working party has developed proposals dealing with USS members who hold irregular (also called variable-time) employments concurrent with regular employment, to ensure that an equitable system for the calculation of benefits is available for such combinations of employment. A deed of amendment has been formulated which incorporates the proposals in detail, and is expected to be executed in the current financial year.

Signed on behalf of the joint negotiating committee

Sir Kenneth Berrill
Chairman

ADVISORY COMMITTEE

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

Three meetings were held during the year. Ms J McAdoo fulfilled the role of chairperson until the end of 2002. In January 2003 the chairmanship reverted to the UUK representative for the next two years and Mr Linfoot was nominated to take on the role of chairman.

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:

- two cases relating to the payment of an eligible child's pension;
- one case relating to an application for ill-health retirement where the application had been turned down by the trustee company and an appeal made against this rejection;
- two cases 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 six 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 seven cases; and
- (b) resulted in a recommendation being accepted by the management committee to grant an award in four cases.

Signed on behalf of the advisory committee

A D Linfoot
Chairman

STATEMENT OF INVESTMENT PRINCIPLES

Introduction

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

The statement has been agreed by the management committee of Universities Superannuation Scheme (USS) on written advice from the investment committee (a sub-committee of the management committee), the scheme's external investment consultants 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. 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 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. Additionally, 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 can delegate to the investment committee the power to decide the investment policy of the fund. 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, 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 index arbitrage). In making its recommendations, the investment committee receives advice from its external investment consultants. 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 within the limits set by the management committee although the chief investment officer and the investment committee monitor their activity. The internal fund managers make recommendations for the continuance or amendment of their fund's 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.

Investment objective and strategy

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 maximise the long-term investment return on the assets having regard to the liabilities of the scheme and the desirability of maintaining stable contribution rates. Regard is had to the scheme's relative immaturity, the minimum funding requirement of the Pensions Act 1995 and the attitude of the employers 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 2002 the scheme's funding level exceeded its minimum funding requirement level. The aim is to maintain an adequate funding cushion so that the risk of deterioration of the MFR ratio to below 100% is at an acceptable level.

Investment management structure

The securities investments of the fund are currently managed by a number of discretionary balanced managers and index tracking (and enhanced index tracking) managers. The reason for using a number of different managers is to spread the investment risk of the scheme. The property portfolio is managed internally.

The management structure is subject to review, generally every five years, by the investment committee and the management committee.

The external balanced managers are remunerated either through fixed annual fees or performance-related fees and the enhanced index tracking managers are remunerated either through ad valorem fees or performance-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.

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 the weighting generally held by mature funds. This is achieved by retaining the index tracking and enhanced index tracking funds as discrete funds and by the asset allocation limits 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 management committee has determined the appropriate asset distribution, and permitted deviations, for the fund as:

	%	Divergence limits
UK equities (including index-linked gilts)	55	-10% to + 10%
Overseas equities	25	-10% to + 5%
Fixed interest	10	-5% to + 2½%
Property	10	-5% to + 2½%

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

Equities	4.5%
Index-linked	2%
Fixed interest	2.5%
Property	3%

The balanced investment managers have been given target ranges for the assets they manage which are consistent with the benchmark asset allocation for the total fund. The target ranges are as follows:

UK equities	35% - 55%
Overseas equities	20% - 35%
Fixed interest	10% - 20%
Index-linked	0% - 15%
Cash	0% - 5%

The managers are able to determine their asset allocation as long as they remain within these target ranges. The asset distribution of the internally managed fund is used, to the extent necessary, to balance the asset distribution of the total fund to ensure that it remains within the agreed divergence limits. The indices against which the managers are measured have been agreed with them and the managers are expected to add value by selection against the indices and by asset allocation within the target ranges. They have been informed that USS is a risk-tolerant fund due to its funding level and to the fact that it is relatively immature.

The objective of the index tracking fund is to match the return on the FTSE All-Share Index. This fund is managed by the internal manager acting on external advice. The objective of the enhanced index tracking funds is to exceed the return on the FTSE All-Share Index by 0.5% pa.

The investment objective 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.

At 31 December 2002 the securities assets of the fund were allocated between the managers in an approximate ratio of:

	%
Internally managed balanced fund	46
Index tracking/enhanced index tracking funds	26
Externally managed balanced funds	28

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 and enhanced index tracking managers;
- 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.

The asset distribution of the fund is reported to the investment committee and the management committee on a quarterly basis to ensure that the asset distribution remains within the agreed limits. In the event that the limits are breached the chairman of the investment committee, after consultation with the investment specialists on the investment committee, will agree with the chairman of the trustee company the appropriate action to be taken.

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. 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 FTSE 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.

The chief investment officer monitors the portfolios of all the balanced managers to ensure that an adequate spread of investments is maintained.

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

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 indices. 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 data provided to the WM Company for measurement of the performance of the whole fund against its benchmark.

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.

Transaction costs

Each of the securities managers is required to provide a report annually to the trustee company on transaction costs incurred which is, as a minimum, in line with the IMA/NAPF Pension Fund Cost Disclosure Code. The external managers are not permitted to use soft commissions in respect of their transactions on behalf of the fund but the investment committee has agreed that the use of soft commissions by the internally managed fund is appropriate and in the best interest of the scheme.

Level of scheme maturity

Whilst nearly 40% of the liabilities as at the 2002 valuation were in respect of pensions in payment, the scheme is cash flow positive and does not need to realise investments to meet liabilities. The actuary has confirmed that this is likely to remain the case for the next ten years or more. The relative immaturity of the scheme will, however, be kept under review by the trustee company.

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-collateralised and be approved by the investment committee acting on legal advice.

Responsible shareholding

As an institutional investor that takes seriously its fiduciary obligations to its beneficial and institutional members, the trustee company aims to be an active and responsible long-term shareholder of companies and markets in which it invests. The trustee company pursues this policy in order to protect and enhance the value of the fund's investments by encouraging responsible corporate behaviour.

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

The management committee has instructed its internal fund manager and called on its external managers to focus their effort on the engagement option, and thus seeks to use its influence as a major institutional investor to promote good practice by investee companies and by markets to which the fund is particularly exposed.

The management committee expects the scheme's fund managers to undertake appropriate monitoring of the policies and practices on material corporate governance and social, ethical and environmental issues of current and potential investee companies.

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

The investment committee monitors this engagement on an on-going basis with the aim of maximising its impact and effectiveness. The trustee company's governance, social, ethical and environmental policies are also reviewed regularly by the management committee and, where appropriate, updated to ensure that they are in line with good practice for pension funds in particular, and institutional investors in general.

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 although the limit for the internally managed fund can be increased to up to 10% with the prior approval of the chairman of the investment committee. The use of derivatives is to be solely for the efficient management of the portfolio.

Underwriting

The 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	1,564	509	124
4100	Aston	497	329	106
4300	Bath	1,104	341	57
6600	Belfast	1,807	551	117
1000	Birmingham	2,388	1,004	186
4200	Bradford	812	439	88
1100	Bristol	2,384	630	133
4400	Brunel	709	284	54
7035	Buckingham	78	37	4
1200	Cambridge (University)	4,419	884	261
1202	Christ's	19	5	3
1204	Churchill	38	9	—
1206	Clare	14	5	—
1208	Clare Hall	4	—	1
1210	Corpus Christi	23	6	2
1212	Darwin	5	3	1
1214	Downing	19	9	3
1216	Emmanuel	23	4	1
1218	Fitzwilliam	13	4	2
1220	Girton	37	9	3
1222	Gonville & Caius	30	10	3
1224	Hughes Hall	1	2	1
1226	Jesus	17	4	3
1228	King's	22	9	2
1230	Lucy Cavendish	31	5	—
1232	Magdalene	12	6	2
1234	New Hall	33	9	1
1236	Newnham	31	17	3
1238	Pembroke	35	5	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'	17	2	1
1245	Robinson	15	6	—
1246	St Catharine's	23	3	—
1255	St Edmund's	3	1	—
1250	St John's	49	5	3
1252	Selwyn	15	1	—
1254	Sidney Sussex	10	1	1
1258	Trinity	52	10	5
1260	Trinity Hall	19	4	2
1268	Wolfson	13	2	1
4700	City	1,023	318	85
7016	Cranfield	916	398	95
0700	Dundee	1,499	342	70
1300	Durham (University)	1,361	439	73
1301	St Chad's	2	—	—
1302	St John's	2	—	—
1303	Ushaw College	1	—	—
1500	East Anglia	1,109	323	49
0200	Edinburgh	3,170	905	233
1700	Essex	756	169	44
1600	Exeter	1,120	432	84
0300	Glasgow	2,627	807	158
0800	Heriot-Watt	804	250	40
1800	Hull	949	411	100
3100	Keele	727	241	43
1900	Kent at Canterbury	850	320	44
2100	Lancaster	1,050	332	67
2000	Leeds	3,013	960	217

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
2200	Leicester	1,369	346	74
2300	Liverpool	1,869	666	156
2497	London (University)	450	604	173
2408	Birkbeck	583	141	30
2401	Goldsmiths' College	525	121	8
2480	Heythrop	15	4	—
2409	Imperial Coll of Science, Technology & Medicine	3,030	878	211
2440	Institute of Cancer Research	183	18	1
2403	Institute of Education	392	187	41
2410	King's College London	2,563	820	188
2412	London School of Economics & Political Science	878	195	50
2434	London School of Hygiene & Tropical Medicine	483	81	31
2413	Queen Mary & Westfield College	1,188	524	111
2447	Royal Holloway and Bedford New College	631	242	41
2436	Royal Veterinary College	208	54	18
2428	St George's Hospital Medical School	443	62	18
2415	School of Oriental & African Studies	401	176	42
2416	School of Pharmacy	105	28	8
2417	University College	3,986	917	186
2484	London Business School	219	35	9
4600	Loughborough	1,212	411	107
2500	Manchester	3,136	1,082	242
5100	UMIST	1,120	434	82
1400	Newcastle-upon-Tyne	1,996	708	159
2600	Nottingham	2,584	614	135
8900	Open	2,487	553	109
2700	Oxford (University)	3,614	974	311
2701	All Souls	35	11	4
2702	Balliol	28	2	1

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
2703	Brasenose	17	3	4
2704	Christ Church	49	7	6
2705	Corpus Christi	16	7	2
2706	Exeter	21	3	4
2707	Hertford	21	4	1
2708	Jesus	22	6	—
2709	Keble	27	5	—
2710	Lady Margaret Hall	17	8	1
2734	Linacre	4	3	—
2711	Lincoln	17	4	2
2712	Magdalen	30	10	5
2735	Harris Manchester	11	3	—
2732	Mansfield	29	5	1
2713	Merton	28	9	2
2714	New College	39	9	5
2715	Nuffield	39	10	3
2716	Oriel	22	9	—
2717	Pembroke	15	5	4
2718	Queen's	23	8	1
2736	Regent's Park	3	—	—
2719	St Anne's	31	8	1
2720	St Antony's	20	8	1
2721	St Catherine's	26	9	1
2722	St Edmund Hall	9	2	1
2723	St Hilda's	27	11	1
2724	St Hugh's	23	8	—
2725	St John's	38	7	2
2726	St Peter's	20	3	2
2727	Somerville	12	9	—

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
7028	Templeton	29	16	1
2728	Trinity	12	3	1
2729	University	23	9	—
2730	Wadham	18	6	2
2733	Wolfson	13	5	—
2731	Worcester	19	8	1
2800	Reading	1,542	507	129
0400	St Andrews	801	231	56
4800	Salford	924	498	82
2900	Sheffield	2,471	698	136
3000	Southampton	2,550	595	123
0500	Stirling	726	205	41
0600	Strathclyde	1,521	529	149
4000	Surrey	1,237	386	65
3200	Sussex	962	388	72
6800	Ulster	1,495	362	86
3900	Wales (University)	56	23	4
3300	Aberystwyth	627	285	66
3400	Bangor	755	309	68
3500	College of Cardiff	1,786	571	156
3800	Lampeter	113	43	9
3600	Swansea	1,047	347	89
3700	University of Wales College of Medicine	594	122	32
5000	Warwick	1,558	350	66
5200	York	1,255	246	59
Old university institutions total		95,903	29,626	6,668

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
New universities admitted for limited membership only				
8160	Abertay	7	—	—
8100	Bournemouth	4	1	—
8080	Brighton	25	—	—
8150	Central Lancashire	7	1	—
8110	Coventry	31	—	—
8060	De Montfort	12	2	—
8010	Glamorgan	8	—	—
8210	Greenwich	1	—	—
8040	Hertfordshire	2	—	—
8050	Huddersfield	1	—	—
8170	Kingston	5	—	—
8190	Lincolnshire & Humberside	8	—	—
8300	Liverpool Hope University College	1	—	—
8270	Liverpool John Moores	6	—	—
8280	Luton	—	—	—
8140	Manchester Metropolitan	14	—	—
8240	North London	7	—	—
8090	Nottingham Trent	15	1	—
8120	Oxford Brookes	8	—	—
8250	Paisley	2	—	—
8070	Plymouth	21	2	—
8290	Queen Margaret University College	2	—	—
8220	Sheffield Hallam	2	—	—
8020	South Bank	20	4	—
8030	Thames Valley	2	2	—
8180	University of Wales Institute, Cardiff	2	—	—
8130	Westminster	16	—	—
New university institutions total		229	13	—
All university institutions total		96,132	29,639	6,668

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:

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
7113	Aberdeen Univ Research & Ind Services Ltd	1	—	—
7224	AGCAS	—	—	—
7221	Al-Maktoum Institute for Arabic and Islamic Studies	—	—	—
7209	Anglia South Open College Network	3	—	—
7010	Animal Health Trust	39	6	1
7040	Arthritis Research Campaign	1	2	—
7211	Arts and Humanities Research Board	—	—	—
7190	Ashridge (Bonar Law Memorial) Trust	22	—	—
7178	Assessment and Qualifications Alliance	29	34	7
7011	Association of Commonwealth Universities	32	31	9
7108	Aston Techn Planning & Management Services Ltd	—	—	—
7067	Beatson Institute for Cancer Research	50	4	1
7084	BLCMP (Library Services) Ltd	2	4	—
7037	Brewing Research International	36	13	2
7206	Bristol Zoo Gardens	—	—	—
7012	British Glass Manufacturers' Confederation	—	8	—
7030	British Institute in Eastern Africa	3	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	6	2	1
7092	British School at Rome	3	—	—
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	36	4	—
7060	Cancer Research UK	6	9	1
7153	CASE	2	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:

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
7197	Centre for Migration Studies	1	—	—
7015	College of Estate Management	20	20	8
7191	Connect - The Communications Disability Network	14	—	—
7229	Consortium for Higher Education Energy Purchasing	—	—	—
7188	Cranfield Aerospace Limited	23	2	—
7219	Cranfield Innovative Manufacturing Ltd	6	—	—
7110	Council for British Research in the Levant	2	—	—
7216	Courtauld Institute of Art	55	—	—
7098	Culham College Inst for Church Related Education	1	—	—
7145	Dartington Hall Trust	7	—	—
7217	Duke Corporate Education Ltd	—	—	—
7055	East Grinstead Med Research Trust (Blond Labs Ltd)	4	1	1
7159	Edexcel Foundation	25	24	—
7164	Edinburgh Business School	17	1	—
7032	Edinburgh University Students' Association	69	4	1
7182	EDUSERV	31	2	—
7139	Engineering Development Trust	19	6	—
7212	EUSPEN Ltd	1	—	—
7089	Ewing Foundation	3	2	—
7214	Forum for European Philosophy	—	—	—
7175	Freshwater Biological Association	5	—	—
7041	Geographical Association	5	2	—
7152	Gray Laboratory	29	3	—
7025	Henley Management College	63	35	3
7157	Higher Education Careers Service Unit	5	4	—
7176	HEFCE	2	—	—
7151	HESDA	6	5	—
7186	Higher Education South East	2	—	—
7135	Higher Education Statistics Agency Ltd	21	1	2

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
7053	History of Parliament Trust	25	5	—
7143	Homerton College	16	3	1
7170	Hull University Union	6	—	—
7029	Institute for Employment Studies	6	9	—
7079	Institute of Community Studies	9	6	—
7017	Institute of Development Studies	100	34	4
7056	Institute of Food Science & Technology	3	—	—
7213	Institute of Social & Ethical Accountability	1	—	—
7225	Intellectual Property Ltd	—	—	—
7207	International Extension College	—	—	—
7124	International Institute of Biotechnology	1	—	—
7200	International Research Foundation for Open Learning	6	—	—
7132	International Society (Manchester)	1	1	—
7149	International Students House	4	—	—
7054	Joint Library of Hellenic & Roman Societies	—	1	—
7147	JNT Association	35	5	1
7066	Journal of Endocrinology Ltd	—	1	—
7189	Kelvin Nanotechnology Ltd	—	—	—
7226	Kidscan Ltd	—	—	—
7192	King Alfred's College of Higher Education, Winchester	3	—	—
7177	Learning from Experience Trust	2	—	—
7208	LeNSE Ltd	—	—	—
2482	Lister Institute of Preventive Medicine	1	5	3
7171	London Institute	2	—	—
7168	London Mathematical Society	2	—	—
7179	London School of Jewish Studies	3	—	—
7117	Ludwig Inst for Cancer Research - Middlesex Branch	29	—	—
7039	Ludwig Inst for Cancer Research - St Mary's Branch	12	4	—
7215	Manchester Medical Society	2	—	—

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

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

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
7090	Marie Curie Cancer Care	39	2	5
7125	Marine Biological Association of the United Kingdom	33	—	—
7094	MIRA Ltd	45	43	7
7096	Modern Humanities Research Association	6	1	—
7222	National Centre for Business and Sustainability	—	—	—
7114	Nat Collections of Ind & Marine Bacteria Ltd	—	—	—
7018	National Inst of Economic & Social Research	27	8	3
7080	Norfolk Agricultural Station (Morley Res Centre)	9	3	1
7205	North East Wales Institute	1	—	—
7073	Northern College for Residential Adult Education	29	6	2
7146	Northern Ireland Council for Postgraduate Med & Dental Educ	5	1	—
7115	Northern Ireland Economic Research Centre	11	1	5
7048	Numerical Algorithms Group Ltd	44	1	2
7155	Nuffield Trust	10	1	—
7183	NYU in London	4	—	—
7058	Open University Worldwide	18	6	—
7023	Overseas Development Institute	47	7	—
7174	Oxford Cambridge & RSA Examinations	148	2	—
7031	Oxford Centre for Hebrew & Jewish Studies	10	2	—
7118	Oxford Centre for Islamic Studies	4	—	—
7163	Oxford Policy Institute	1	—	—
7104	Pain Relief Foundation	2	—	—
7075	Policy Studies Institute	28	12	3
7162	Quality Assurance Agency	39	12	3
7052	Reading University Students Union	—	1	—
7203	Regional Studies Association	3	—	—
7156	Regulatory Policy Institute	—	—	—
7123	Richmond College	35	6	—
7185	Royal Academy of Dancing	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
7160	Royal Academy of Music	3	—	—
7218	Royal Agricultural College	1	—	—
7181	Royal College of Music	1	—	—
7081	Royal College of Paediatrics and Child Health	2	1	—
7020	Royal College of Surgeons of England	98	28	10
7021	Royal Geographical Society	2	3	1
7082	Royal Institute of International Affairs	3	—	—
7077	Royal Institution	17	5	1
7158	Royal Northern College of Music	3	—	—
7064	Royal Society	—	—	1
7070	Royal Society of Edinburgh	2	2	—
7022	Ruskin College	46	14	7
7105	School Mathematics Project	4	3	—
7130	Scottish Association for Marine Science	58	2	1
7232	Scottish Further Education	—	—	—
7169	Society of Antiquaries of London	9	—	—
7196	Sheffield University Enterprises Ltd	8	—	—
7199	Smith Institute	6	—	—
7131	Southern Universities Management Services	12	3	—
7180	Standing Conference of Principals Ltd	3	—	—
7220	Stockholm Environment Institute	—	—	—
7042	Strangeways Research Laboratory	5	9	2
7049	Students' Union University of Leicester	1	2	1
7187	Technology Innovation Centre	—	—	—
7134	The Prince's Foundation	2	2	—
7138	Thrombosis Research Institute	12	2	—
7109	Trade Union Research Unit Ltd	—	—	—
7141	TUIREG	—	1	—
7173	Trinity College of Music	40	—	—

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
7204	UHI Millenium Institute	4	—	—
7210	UKCOSA	15	—	—
7166	UMIST Ventures Ltd	5	—	—
7106	Universities and Colleges Admissions Service	22	12	4
7150	Universities and Colleges Employers Association	8	1	—
7121	Universities UK	39	7	1
7194	University College Northampton	3	—	—
7184	University Council for the Education of Teachers	3	—	—
7198	University of Cambridge Challenge Fund	2	—	—
7202	University of Wales College, Newport	—	—	—
9999	USS Ltd	112	23	6
7065	Wildfowl & Wetlands Trust	1	7	1
7148	Witan Hall (incorp Gyosei International College in the UK)	24	1	—
7142	WP Management Ltd	1	—	—
7195	YHUA Ltd	3	—	—
7027	York Archaeological Trust	2	2	—
7076	Zoological Society of London	40	11	—
—	Withdrawn institutions	—	48	6
Non-university institutions total		2,212	615	119

All institutions total 98,344* 30,254 6,787

*Included in this figure (but counted once only) are 1,126 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 2003

Members	University Institutions	Non-University Institutions	Totals
Total members at 1 April 2002	93,678	2,015	95,693
New members	13,569	313	13,882
Retirements - Ill-health	167	3	170
- Other	1,787	44	1,831
Deaths	88	2	90
Leavers and withdrawals - Refunds	1,479	21	1,500
- Deferred/undecided	6,996	109	7,105
- Retrospective*	532	3	535
Total members at 31 March 2003	96,198	2,146	98,344

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

In addition USS Ltd was notified during the year of 2,634 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 2002	28,037	571	28,608
New pensioners	2,207	49	2,256
Deaths	605	5	610
Total pensioners at 31 March 2003	29,639	615	30,254

In addition at 31 March 2003, there were 6,024 pensions being paid to spouses and dependants and 763 annuities being paid to dependent children. Deferred pensioners not yet receiving a pension totalled 51,435.

Ex-spouse participants

At 31 March 2003 forty four ex-spouse participants have benefits within the scheme in their own right as a result of pension sharing, of whom four are now in receipt of their pension and are included in the pensioner member summary above.

UNIVERSITIES SUPERANNUATION SCHEME
USS ACCOUNTS

FUND ACCOUNT for the year ended 31 March 2003

	Note	2003 £m	2002 £m
Contributions and Benefits			
Contributions receivable	3	660.8	611.4
Premature retirement scheme receipts		40.2	38.2
Transfers in	4	115.2	106.1
		816.2	755.7
Benefits payable	5	645.3	610.3
Payments on account of leavers	6	42.8	55.9
Administration costs	7	7.6	5.8
		695.7	672.0
Net additions from dealings with members		120.5	83.7
Returns on investments			
Investment income	8	555.1	478.9
Change in market value of investments	9	(5,036.1)	(629.3)
Investment management expenses	10	(13.5)	(15.5)
Net returns on investments		(4,494.5)	(165.9)
Net decrease in the fund during the year		(4,374.0)	(82.2)
Fund at start of year		19,956.0	20,038.2
Fund at end of year		15,582.0	19,956.0

19,956.0

STATEMENT OF NET ASSETS as at 31 March 2003

	Note	2003 £m	2002 £m
Investments			
Securities	12	12,914.3	16,890.0
Pooled investment vehicles	13	477.0	566.3
Property	14	1,649.6	1,666.9
Life assurance policies	15	14.4	183.4
Cash deposits		396.1	485.8
Stockbroker balances	16	(24.6)	(22.1)
		15,426.8	19,770.3
Net current assets	17	155.2	185.7
Total net assets, representing the fund balance		15,582.0	19,956.0

The financial statements on pages 51 to 59 and the statement of trustee's responsibilities on page 60 were approved by the trustee, Universities Superannuation Scheme Limited, on 24 July 2003 and were signed on its behalf by:

G J Davies
Chairman

C D Donald
Deputy Chairman

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2003

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 statement by the actuary on pages 63 to 66 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:

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

Property

A completed property is one that has received an architect's certificate of practical completion and which is either substantially let or, although not substantially let, is neither within the period of contractors' liability for 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 surrender value where a quotation has been received; otherwise at the value calculated by an actuarial valuation.

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

3. Contributions

	2003 £m	2002 £m
Main section		
Employers' contributions	440.9	408.4
Members' basic contributions	188.8	174.9
Members' additional voluntary contributions	20.1	17.9
	649.8	601.2
Supplementary section		
Members' contributions	11.0	10.2
	660.8	611.4

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:

	2003 £m	2002 £m
Value at the start of the year	114.9	92.1
Contributions from members	20.7	21.6
Transfers in	1.4	0.7
Income from interest and bonuses	4.8	5.2
Payouts to members	(6.3)	(4.7)
	135.5	114.9

4. Transfers in

	2003 £m	2002 £m
Individual transfers in	99.6	105.2
Group transfers in	15.6	0.9
	115.2	106.1

5. Benefits payable

	2003 £m	2002 £m
Main section		
Pensions	517.0	482.0
Lump sums on or after retirement	109.8	108.5
Lump sums on death in service	9.8	12.2
	636.6	602.7
Supplementary section		
Pensions	6.8	6.4
Lump sums on or after retirement	1.6	1.0
Lump sums on death in service	0.3	0.2
	8.7	7.6
	645.3	610.3

Lump sums payable from the supplementary section were understated in 2001 and 2002 and payments from the main section were overstated by the same amount. The figures for 2002 have been restated. For 2001, lump sum payments from the supplementary section were understated by, and from the main section overstated by, £0.9 million.

6. Payments on account of leavers

	2003 £m	2002 £m
Individual transfers to other schemes	39.9	52.7
Payments for members joining state scheme	1.3	1.4
Refunds to members leaving service	1.6	1.8
	42.8	55.9

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

	2003 £m	2002 £m
Dividends from UK equities	288.3	234.1
Net property income	92.3	92.4
Income from pooled investment vehicles	3.2	2.7
Dividends from overseas equities	62.4	58.7
Income from UK fixed interest securities	30.2	25.1
Income from overseas fixed interest securities	44.8	35.8
Income from index-linked securities	9.3	8.6
Interest on cash deposits	20.6	19.8
Other income	4.0	1.7
	<u>555.1</u>	<u>478.9</u>

9. Changes in market value of investments

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

	Market value 2002 £m	Purchases during the year at cost £m	Proceeds of sales during the year £m	Changes in value during the year £m	Market value 2003 £m
Securities	16,890.0	7,452.7	(6,521.4)	(4,907.0)	12,914.3
Pooled investment vehicles	566.3	159.1	(96.5)	(151.9)	477.0
Property	1,666.9	80.5	(149.2)	51.4	1,649.6
Life assurance policies	183.4	—	(150.2)	(18.8)	14.4
Cash deposits	485.8	—	(79.9)	(9.8)	396.1
	<u>19,792.4</u>	<u>7,692.3</u>	<u>(6,997.2)</u>	<u>(5,036.1)</u>	<u>15,451.4</u>
Stockbroker balances	(22.1)				(24.6)
	<u>19,770.3</u>				<u>15,426.8</u>

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

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

	2003 £m	2002 £m
Quoted		
UK equities	7,940.3	10,953.8
Overseas equities	3,195.3	4,150.9
UK fixed interest - public sector quoted	345.5	322.8
UK fixed interest - other	108.4	131.7
Overseas fixed interest - public sector quoted	732.6	830.3
Overseas fixed interest - other	181.1	102.9
Index-linked	411.1	397.6
	<u>12,914.3</u>	<u>16,890.0</u>

13. Pooled investment vehicles

	2003 £m	2002 £m
Managed funds	157.3	221.6
Unit trusts - property	21.2	—
- other	253.3	344.7
Property partnerships	45.2	—
	<u>477.0</u>	<u>566.3</u>

14. Property

	2003 £m	2002 £m
UK completed properties	1,518.2	1,411.4
UK developments in progress	131.4	255.5
	<u>1,649.6</u>	<u>1,666.9</u>
Properties analysed by type:		
Freehold	1,563.1	1,563.5
Leasehold	86.5	103.4
	<u>1,649.6</u>	<u>1,666.9</u>

The completed properties and developments in progress were valued independently by Colliers Conrad Ritblat Erdman, chartered surveyors, as at 31 March 2003 and 31 March 2002.

15. Life assurance policies

The scheme surrendered most of the policies with the Equitable Life Assurance Society which were assigned to it in respect of former FSSU members but continued to hold a small number of policies at 31 March 2003. The basis of valuation is stated in Note 2.

16. Stockbroker balances

	2003 £m	2002 £m
Amount due to stockbrokers	(96.4)	(83.5)
Amount due from stockbrokers	71.8	61.4
	<u>(24.6)</u>	<u>(22.1)</u>

17. Net current assets

	2003 £m	2002 £m
Current assets		
Dividends receivable	94.3	119.0
Contributions due from institutions	68.8	66.4
Other debtors	20.0	8.3
Cash at bank and in hand	16.4	25.3
Taxation debtor	-	6.9
	<u>199.5</u>	<u>225.9</u>
Current liabilities		
Property creditors	16.9	16.8
Benefits payable	14.5	14.2
Taxation creditor	3.7	-
Other creditors	6.5	2.9
Due to USS Ltd	2.7	6.3
	<u>44.3</u>	<u>40.2</u>
	<u>155.2</u>	<u>185.7</u>

18. 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.

	2003 £m	2002 £m
Value of stock on loan at 31 March	1,270.6	1,609.2
Value of collateral held at 31 March	<u>1,392.9</u>	<u>1,649.8</u>

19. Financial commitments

	2003 £m	2002 £m
Property		
Contracts placed but not provided for	<u>164.5</u>	<u>64.5</u>
Securities		
Forward commitments for unpaid calls on securities and underwriting contracts	<u>1.4</u>	<u>5.7</u>

20. Self investment

The scheme has no employer related investments as at 31 March 2003. Employer related investment occurred during the year from the late receipt of contributions due from institutions. At any time this was less than 0.02% of the scheme's net assets as at 31 March 2003.

21. 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 £7.6 million and £13.5 million respectively, with a balance due from the scheme of £2.7 million at 31 March 2003.

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 and provide a statement about contributions to the Scheme in accordance with relevant legislation. This report, including the opinion and statement on contributions, has been prepared for and only for the Scheme's Trustee as a body in accordance with Section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion and statement, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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, in all material aspects, contributions have been paid in accordance with the schedule of contributions dated 22 May 2000.

Statement about contributions to the Scheme

In our opinion, the contributions payable to the Scheme during the year ended 31 March 2003 have been paid in all material aspects 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 2003, 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 LLP
Chartered Accountants and Registered Auditors
Liverpool
July 2003

STATEMENT BY THE ACTUARY for the year ended 31 March 2003

- 1 An actuarial valuation of the Universities Superannuation Scheme (the Scheme) was carried out as at 31 March 2002 with the results set out in our report dated 27 March 2003.
- 2 The 2002 valuation showed that the Scheme was in a healthy financial position. No change to the Institutions' contribution rate was proposed which therefore remained at 14% of salaries (albeit this rate was marginally below the assessed cost of accrual of 14.25%), subject to review at the next valuation at 31 March 2005.
- 3 The valuation as at 2002 showed a small surplus (of £162 million) of assets over liabilities with the funding level (the ratio of assets to liabilities) being 101%. The valuation methodology and underlying long-term actuarial assumptions giving rise to this valuation result were considered to be very prudent in that:
 - no allowance was built in to the valuation of past service liabilities to reflect any expected out-performance of the USS assets (which were predominantly invested in equities) over the return available on UK Government Fixed Interest stocks. Typically, scheme actuaries incorporate an allowance of up to 2% p.a. to allow for such expected equity out performance. Had a higher allowance within this range been made in the assumptions, the funding level would have been substantially greater
 - the other assumptions were also generally pitched on the conservative or prudent side; a significant promotional salary scale was built in to the demographics, the mortality tables were updated to reflect improved longevity and the ill-health and withdrawal assumptions were struck on the conservative side having regard to analysis of USS's actual scheme specific experience.
- 4 Whilst not an exact comparator, it may be helpful to assess the reported 101% funding level in the context of the Minimum Funding Requirement funding level (as determined under the Pensions Act 1995) which stood at 144% as at 31 March 2002.
- 5 The Trustee has continued to monitor the funding level since the valuation date, particularly in the light of falling markets. On the instructions of the Management Committee a further actuarial review of the Scheme has been completed as at 31 March 2003.
- 6 The purpose of the actuarial review is to examine the experience of the Scheme since the valuation at 31 March 2002. The actuarial review compares the experience of the Scheme with the assumptions made at the 2002 valuation. This is to determine whether the Scheme has been progressing satisfactorily or whether any deterioration has taken place which might require remedial action. The review was carried out in a consistent manner to the 2002 valuation and thus was similarly cautious.
- 7 The main items which have affected the Scheme during the year under review and the effect of each are described below:
 - 7.1 The investment performance for the year has been less favourable than the assumption made at the 2002 valuation. This has acted to reduce the funding position of the Scheme.
 - 7.2 Changes in market conditions (reflected in lower nominal and index-linked gilt yields and a lower, long term rate of inflation as derived from the market) have served to reduce the funding level.
 - 7.3 The continuation of the 14% Institutions' contribution rate will have marginally reduced funding levels.

- 8 Reflecting the significant decline in asset values and the lowering of interest rates, the ongoing funding level was assessed at some 70% as at 31 March 2003, although the Minimum Funding Requirement was still met with a MFR funding level of some 105%.
- 9 The investments remain predominantly in UK and Overseas equities. The Trustee has reviewed the investment strategy and determined not to make any significant change, at this time. Markets have proven to be particularly volatile in the recent past but the Trustee does not intend to attempt to "call the markets"; it is investing, over the long term, on the basis that equities will indeed provide out-performance over gilts over long periods. The USS fund is well placed to ride any short-term volatilities as it has a very positive cash flow, with contribution income and dividend receipts well in excess of the level of benefits to be paid out of the scheme each year, for the foreseeable future. The Scheme also covers all its statutory and regulatory requirements regarding funding and one might view the covenant of the employing institutions as extremely strong.
- 10 The valuation results will be considered, again, as at 31 March 2004 leading up to the full actuarial review as at 31 March 2005. At that time the full methodology and assumptions will be reviewed again, in detail, and the investment strategy re-considered in the light of what we hope will be more stable worldwide economic and political conditions. In advance of that more detailed review and in the light of the robust, conservative assumptions used in the ongoing valuation, the satisfactory MFR position and strong positive cash flow, it has been agreed to maintain the current rate of contributions paid by the Institutions at 14% of pensionable salaries.

Mercer Human Resource Consulting Limited
Manchester M2 4DW
24 July 2003

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 2002

1. Compliance with minimum funding requirement

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

2. Valuation principles

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

Mercer Human Resource Consulting Limited
Manchester M2 4DW
February 2003

E S Topper
Fellow of the Institute of Actuaries

Note:

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

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

Name of scheme: Universities Superannuation Scheme
Effective date of valuation: 31 March 2002

1. Security of prospective rights

In my opinion, the resources of the scheme are likely in the normal course of events to meet in full the liabilities of the scheme as they fall due. This statement assumes the scheme continues and does not mean that should the scheme wind up there would be sufficient assets to provide the full accrued benefits.

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

Description of contributions

Employer contributions: 14% of Salaries per annum
Member contributions: 6.35% of Salary per annum

Subject to review at future actuarial valuations.

2. Summary of methods and assumptions used

Valuation method	Projected unit
Investment return - past service	5.0% per annum
- future service	6.0% per annum
Salary growth	3.7% per annum
Pension increases	2.7% per annum

Further details of the methods and assumptions used are set out in my actuarial valuation addressed to the Trustee dated March 2003.

Mercer Human Resource Consulting Limited
Manchester M2 4DW
February 2003

E S Topper
Fellow of the Institute of Actuaries

FIVE YEAR SUMMARY - FUND ACCOUNTS for years ended 31 March

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Contributions and benefits					
Contributions	661	611	565	523	481
PRS receipts	40	38	35	37	41
Transfers in	115	106	92	92	68
	<u>816</u>	<u>755</u>	<u>692</u>	<u>652</u>	<u>590</u>
Benefits payable					
Pensions	524	488	446	417	384
Lump sums	121	122	91	88	91
Transfers out	41	54	27	20	22
Refunds	2	2	1	1	1
	<u>688</u>	<u>666</u>	<u>565</u>	<u>526</u>	<u>498</u>
Returns on investments (net of investment management costs)	<u>541</u>	<u>463</u>	<u>507</u>	<u>480</u>	<u>497</u>
Administration costs of the trustee (excluding investment management costs)	<u>7.6</u>	<u>5.8</u>	<u>6.3</u>	<u>6.5</u>	<u>6.4</u>
Changes in value of investments	<u>(5,036)</u>	<u>(629)</u>	<u>(2,562)</u>	<u>2,559</u>	<u>882</u>
Investments of the fund (at current values) at 31 March					
Securities	12,914	16,890	17,452	19,664	16,730
Pooled investment vehicles	477	566	-	-	-
Property	1,650	1,667	1,592	1,516	1,175
Life assurance policies	15	183	212	250	264
Cash deposits	396	486	644	454	492
Stockbroker balances	(25)	(22)	(23)	(41)	26
	<u>15,427</u>	<u>19,770</u>	<u>19,877</u>	<u>21,843</u>	<u>18,687</u>

Note: Prior to year end 31 March 2002 pooled investment vehicles were not separately disclosed and were included with securities.

Membership numbers at 31 March	2003	2002	2001	2000	1999
Contributing members	98,400	95,700	91,300	85,100	81,600
Pensioners	37,000	35,100	33,100	31,400	29,900
Deferred pensioners	51,400	49,500	45,400	42,000	37,600
	<u>186,800</u>	<u>180,300</u>	<u>169,800</u>	<u>158,500</u>	<u>149,100</u>

REPORT OF THE DIRECTORS for the year ended 31 March 2003

The directors submit their report and the accounts for the year ended 31 March 2003.

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 £21,134,000 this amount being recoverable from USS. This compares with £21,369,000 for the year ended 31 March 2002.

Included in the totals for both years were recoveries of costs in prior years. Excluding these recoveries, the total operating costs were £21,227,000 for the year ended 31 March 2003 and £22,905,000 for the year ended 31 March 2002. This represents a 15.8% decrease in investment management costs and a 12.4% increase in other administration costs.

It was reported last year that action had been taken to reduce levels of work in hand in the Liverpool office and ensure satisfactory levels of service. Satisfactory service levels were maintained during the year and further improvements to the scheme's administration introduced. A communications team was established during the year to improve the way that the trustee company communicates with participating institutions and members of USS. Tangible evidence of its success has been the introduction of a new USS website which has received significantly more visitors than the old site.

Costs arising from the introduction of the communications department have contributed to the increase in administration costs this year. Computer costs have also increased during the year, with an upgrade to the Oracle payroll, increased maintenance (from a very low base) on the pensions administration system and increased depreciation on computer systems following the purchase of new equipment for the London office. The increase in professional fees reflects advice obtained on a range of issues during the year including the Myners Review, the surrender of the life assurance policies from Equitable Life, work arising from employment tribunal cases relating to irregular employment and the introduction of new rules particularly those in respect of part-time employees, as well as the cost of the triennial actuarial valuation completed during the year.

Increased staff in the London Investment Office meant that our premises at Angel Court were no longer able to accommodate the internal investment team. For operational reasons it was determined that larger premises in the City, with all staff located on a single floor, were necessary and in October 2002 the London Investment Office relocated to 99 Bishopsgate. Higher rental costs, together with a break penalty for early surrender of the lease on Angel Court, resulted in an increase in premises costs compared to the previous year.

Investment management costs have fallen from the level of previous years mainly as a result of the relatively poor performance of one of the external investment managers whose fee is performance related.

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)	Howard Jacobs (<i>from 1.10.2002</i>)
C D Donald (deputy chairman)	Sir Howard Newby
A S Bell	Michael S Potts
L Collinson	Professor Charles Sutcliffe
Angela Crum Ewing	J W D Trythall
Professor Sir Martin Harris	Baroness Warwick of Undercliffe

Statement of Directors' Responsibilities

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

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

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

Auditors

PricewaterhouseCoopers transferred its business to a limited liability partnership, called PricewaterhouseCoopers LLP, incorporated under the Limited Liability Partnerships Act 2000, on 1 January 2003. PricewaterhouseCoopers resigned on 27 March 2003 and the vacancy in the office of auditor to the trustee company has been filled by the appointment of PricewaterhouseCoopers LLP with effect from 11 April 2003.

As required by the regulations made under the Pensions Act 1995, PricewaterhouseCoopers confirmed to the trustee company in its notice of resignation that it knew of no circumstances connected with the resignation that significantly affected the interests of the members of the Company.

By order of the board

J P Williams
Secretary

24 July 2003

STATEMENT OF OPERATING COSTS for the year ended 31 March 2003

	Note	2003 £000	2002 £000
Personnel costs			
Employees' emoluments	4	6,291	6,085
Directors' emoluments and expenses	5	378	337
Recruitment, training and welfare		294	355
		<u>6,963</u>	<u>6,777</u>
Premises costs			
Rent, rates, service charges and utilities		1,669	1,277
Depreciation and maintenance		178	89
		<u>1,847</u>	<u>1,366</u>
Investment costs			
Securities management		6,849	10,659
Securities management rebates	6	(2,158)	(1,486)
Custodial services		1,329	913
Property management		1,686	1,441
Legal costs - property management		390	307
- securities management		7	9
- special investigation		-	779
- recovery of special investigation costs	13	-	(779)
Property valuation		176	151
Investment performance measurement		85	77
Costs met by third parties	7	-	(62)
		<u>8,364</u>	<u>12,009</u>
Other costs			
Computer and information services costs	8	2,372	1,937
Professional fees	9	1,433	764
Office equipment		245	325
Travel and car costs		404	358
Telephones and postage		201	194
Institution liaison and member communication		175	151
Printing and stationery		144	146
FSA/IMRO membership		89	48
Pensions Act Levy		55	58
Insurances		97	47
Auditors' remuneration	10	40	36
Sundry (Income)/Expenditure		40	(3)
Profit on disposal of fixed assets		(18)	(6)
Costs met by third parties	7	(1,224)	(1,302)
		<u>4,053</u>	<u>2,753</u>
Total operating costs before prior year items		<u>21,227</u>	<u>22,905</u>
Recovery of costs incurred in prior years			
VAT		(93)	-
Legal costs - special investigation	13	-	(447)
Service charges - Liverpool premises	14	-	(963)
VAT on service charges - Liverpool premises	14	-	(126)
		<u>(93)</u>	<u>(1,536)</u>
Total operating costs recoverable from USS	15	<u>21,134</u>	<u>21,369</u>

BALANCE SHEET as at 31 March 2003

	Note	2003 £000	2002 £000
Assets			
Fixed assets			
Tangible fixed assets	16	2,304	736
Current assets			
Debtors	17	3,530	6,695
Cash at bank and in hand		3	3
		<u>3,533</u>	<u>6,698</u>
Total assets		<u>5,837</u>	<u>7,434</u>
Liabilities			
Creditors - amounts falling due within one year	18	5,837	7,434
Total liabilities		<u>5,837</u>	<u>7,434</u>

The financial statements on pages 70 to 79 were approved by the board of directors on 24 July 2003 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 2003

	Note	2003 £000	2002 £000
Operating activities			
Cash received from USS		24,737	21,939
Operating costs paid	19	(22,597)	(21,638)
Net cash inflow from operating activities		<u>2,140</u>	<u>301</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2,167)	(315)
Sale of tangible fixed assets		27	16
		<u>(2,140)</u>	<u>(299)</u>
Increase in cash		<u>—</u>	<u>2</u>

NOTES TO THE ACCOUNTS for the year ended 31 March 2003

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.

	2003	2002
4. Employees' emoluments		
The average weekly number of persons employed by the company during the year (excluding directors) was	142	138
Staff costs for the above persons were:	£000	£000
Wages and salaries	5,300	5,063
Pension costs (superannuation contributions)	566	501
Social security costs (national insurance contributions)	472	447
Restructuring costs	15	78
	6,353	6,089
Less recovery (see note 11)	(62)	(4)
	6,291	6,085
	2003	2002
	£000	£000
Emoluments of the chief executive	189	178

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 (2002: nil).

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

	2003	2002
£50,001 - £60,000	4	3
£60,001 - £70,000	5	4
£70,001 - £80,000	2	-
£80,001 - £90,000	3	4
£90,001 - £100,000	1	2
£100,001 - £110,000	3	-
£110,001 - £120,000	1	2
£120,001 - £130,000	-	3
£130,001 - £140,000	1	1
£140,001 - £150,000	2	2
£170,001 - £180,000	-	1
£280,001 - £290,000	1	1
£430,001 - £440,000	-	1
£450,001 - £460,000	1	-

	2003	2002
	£000	£000
5. Directors' emoluments and expenses		
Fees	299	283
Employer's costs - national insurance contributions	29	27
- VAT	4	4
Expenses	46	23
	378	337

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 2003 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 2003 and 2002 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:

	2003	2002
	£000	£000
Professor Sir Graeme Davies (chairman)	40	40
C D Donald (deputy chairman)	43	42
A S Bell	36	17
J W D Trythall	26	25
Mrs A Crum Ewing	25	24
M S Potts	25	21
L Collinson	23	21
Professor Charles Sutcliffe	23	12
Baroness Warwick of Undercliffe	20	11
Professor Sir Martin Harris	16	16
H R Jacobs	12	-
Sir Howard Newby	11	5
Lord Mark Fitzalan Howard	-	33
Dr J M Goldstrom	-	7
Professor Sir Brian Fender	-	5
	300	279

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

	2003 £000	2002 £000
Investment information services	1,042	1,175
Computer running costs	708	334
Investment accounting services	267	242
Software depreciation	196	65
Hardware depreciation	145	99
Computer bureau fees	14	22
	<u>2,372</u>	<u>1,937</u>

9. Professional fees

	2003 £000	2002 £000
Legal	531	302
Actuarial	666	289
Committee members (other than directors)	73	88
Taxation	44	21
Pensioner mortality check	43	–
Public relations	29	21
Member medicals	20	22
Salary surveys	2	9
Other	25	12
	<u>1,433</u>	<u>764</u>

10. Auditors' remuneration

	2003 £000	2002 £000
USS	36	33
USS Ltd	4	3
	<u>40</u>	<u>36</u>

Remuneration of the company's auditors for provision of services other than for the audit of USS and USS Ltd was £50,400 for advice on taxation and investment matters relating to the Myners Review (2002: £20,939).

11. Correction of prior year pension increase

	2003 £000	2002 £000
Other consultancy costs	66	27
Staff costs	62	4
IT consultancy costs	2	84
Legal costs	–	66
Other costs	2	19
	<u>132</u>	<u>200</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

	2003 £000	2002 £000
Investment management costs	13,464	15,549
Other administration costs	7,670	5,820
	<u>21,134</u>	<u>21,369</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 £590,000 (2002: £401,000).

16. Tangible fixed assets

Cost	Alterations to Rented Premises £000	Computer Equipment £000	Computer Software £000	Office Equipment £000	Motor Cars £000	Total £000
At 1 April 2002	1,655	1,465	1,713	1,159	385	6,377
Additions	780	343	474	484	86	2,167
Disposals	(364)	(251)	(91)	(110)	(113)	(929)
At 31 March 2003	<u>2,071</u>	<u>1,557</u>	<u>2,096</u>	<u>1,533</u>	<u>358</u>	<u>7,615</u>
Accumulated Depreciation						
At 1 April 2002	1,645	1,304	1,384	1,072	236	5,641
Charge for year	103	145	196	69	77	590
Disposals	(364)	(251)	(91)	(110)	(104)	(920)
At 31 March 2003	<u>1,384</u>	<u>1,198</u>	<u>1,489</u>	<u>1,031</u>	<u>209</u>	<u>5,311</u>
Net Book Value						
31 March 2003	<u>687</u>	<u>359</u>	<u>607</u>	<u>502</u>	<u>149</u>	<u>2,304</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>

17. Debtors - amounts falling due within one year

	2003 £000	2002 £000
Due from USS	2,675	6,278
Prepayments	835	373
Other debtors	20	44
	<u>3,530</u>	<u>6,695</u>

18. Creditors - amounts falling due within one year

	2003 £000	2002 £000
Accrued expenditure	3,275	4,158
Other creditors	2,402	3,132
Taxation and social security	160	144
	<u>5,837</u>	<u>7,434</u>

19. Reconciliation of operating costs paid

	2003 £000	2002 £000
Operating costs - recoverable from USS	21,134	21,369
Decrease in creditors (excluding USS)	1,597	559
Profit on sale of tangible fixed assets	18	6
Depreciation	(590)	(401)
Increase/(decrease) in debtors (excluding USS)	438	105
Operating costs paid	<u>22,597</u>	<u>21,638</u>

20. Operating lease commitments

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

	2003 £000	2002 £000
Less than one year	2	1
Between two and five years	18	317
Over five years	1,162	398

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 Second Pension. 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 2002. 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 5% pa, salary increases would be 3.7% pa and pensions would increase by 2.7% pa. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6% pa, including an additional investment return assumption of 1% pa, salary increases would be 3.7% pa and pensions would increase by 2.7% pa. The valuation was carried out using the projected unit method.

At the valuation date, the value of the assets of the scheme was £19,938 million and the value of the past service liabilities was £19,776 million leaving a surplus of assets of £162 million. The assets therefore were sufficient to cover 101% 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 14.25% of pensionable salaries but it was agreed that the institution contribution rate will be maintained at 14% of pensionable salaries. To fund this reduction of 0.25% for the period of 12 years from the date of the valuation (the average outstanding working lifetime of the current active members of the scheme) required the use of £82.5m of the surplus. This left a past service surplus of £79.5m (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 2005 when the above rates will be reviewed.

The total pension cost for the company was £565,505 (2002 : £501,000). 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 £7.6 million and £13.5 million respectively, with a balance due from the scheme of £2.7 million at 31 March 2003.

23. Special purpose companies

USS Ltd owns the share capital of a number of special purpose companies. The companies are dormant and have made neither a profit nor a loss in the period. Full details of these companies may be obtained by writing to the Company Secretary of USS Ltd, Mr John P Williams, at Royal Liver Building, Liverpool L3 1PY.

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 and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors 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. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Report of the Directors.

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 2003 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
July 2003

CHAIRMEN OF PRINCIPAL SUB-COMMITTEES



**Professor
Sir Graeme Davies**
Chairman
Chairman



Colin Donald
Chairman
Finance & General Purposes
Committee



A S Bell
Chairman
Investment Committee



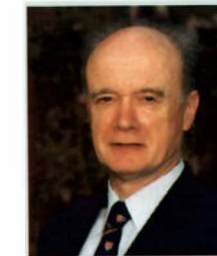
Len Collinson
Chairman
Remuneration Committee



Dr Christine Challis
Chairman
Audit Committee



Sir Kenneth Berrill
Chairman
Joint Negotiating Committee



A D Linfoot
Chairman
Advisory Committee

PRINCIPAL OFFICERS



Inset
Tom Merchant
Interim
Chief Executive

Inset
Robert Walden
Surveyor

Centre, from left to right
Colin Hunter
Chief Accountant

Peter Moon
Chief Investment
Officer

David Chynoweth
Retiring
Chief Executive

John P Williams
Company Secretary

David Andrews
IT Manager

Colin Busby
Communications
Manager

Rosemary Mounce
Chief Pensions
Manager

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