USS
UNIVERSITIES
SUPERANNUATION
SCHEME LIMITED

Report and Accounts

for the year ended
31 March 2005

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 2005 of around £22 billion. It was established in 1974 to administer the principal pension scheme for academic and senior administrative staff in UK universities and other higher education and research institutions.

The head office is at Royal Liver Building, Liverpool and the London Investment Office is at 99 Bishopsgate, London.

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

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

USS

UNIVERSITIES SUPERANNUATION SCHEME

CONTENTS

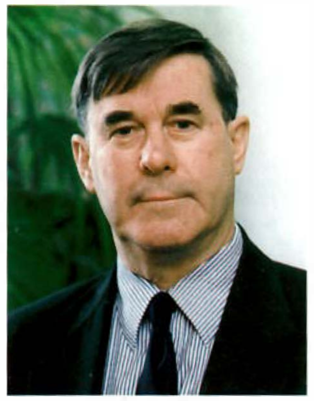
The year to 31 March 2005 was another busy year for pension schemes and for USS. Membership of the scheme continues to grow while another year of positive investment returns has seen the value of the fund rise to almost £22 billion. The scheme's active membership increased by 6.7% from 103,100 to 110,000 and there was substantial growth in the numbers of pensioners and those entitled to deferred benefits to 42,200 (up by 7.7%) and 62,700 (up by 10.6%) respectively. The total membership at 31 March 2005 was almost 214,900 an increase of 36% in five years.

The fund's return for the calendar year to 31 December 2004 of 8.9% helped the total value of the fund to increase to £21.7 billion at 31 March 2005. Despite the negative returns from 2000 to 2002, the ten-year return of the fund of 7.4% per annum comfortably exceeds both earnings growth and retail price inflation over the same period.

During the year the government has unveiled the detail of its reform of pension schemes, which represents the most radical overhaul of pension provision for many decades. The primary legislation (the Pensions Act 2004 and the Finance Act 2004) came into force in the period, together with a number of associated regulations, and some of these provisions started to have effect during the year, with more to follow during 2005/06. An internal project team has been established to manage the implementation of the reforms, and through Universities UK the trustee company has undertaken a consultation with employers on key aspects of the reforms, and decisions in five key areas have been taken.

Three mergers with USS institution pension schemes have been undertaken during the year as part of a path-finding exercise, and a number of learning points have been gathered ahead of any wider promotion of the scheme's expansion policy. A moratorium on further mergers was put in place so that a full review could be carried out by a working party of the management committee. The working party's final recommendations will be made to a meeting of the management committee early in the summer.

Service levels in Liverpool continue to be maintained at a standard which we believe to be satisfactory. Our existing pensions administration software continues to be robust and operates efficiently, but technological advances and the desire to continually improve the service we offer has seen staff in Liverpool carrying out a feasibility study during the year into either the implementation of a major upgrade to our existing system or the introduction of a new system from an alternative supplier. A decision on which route to take will be made during the summer with work on implementing a replacement system expected to start before the end of 2005.

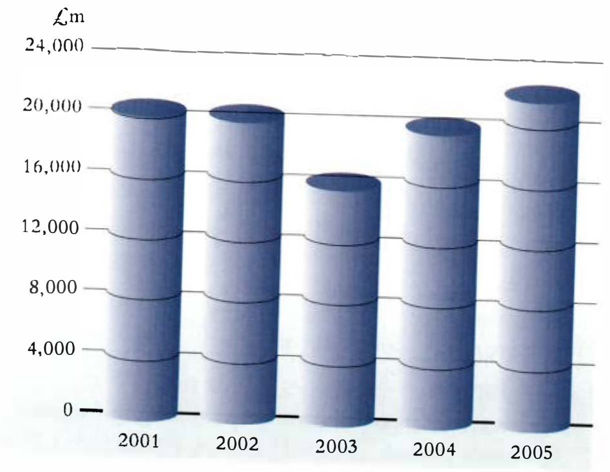


Finally, we repeat the message which has been made in this statement in previous years that we want to reassure members that, in the opinion of the management committee, the institutions that participate in USS remain fully supportive of the provision of a final salary scheme.

Graeme J Davies
Chairman

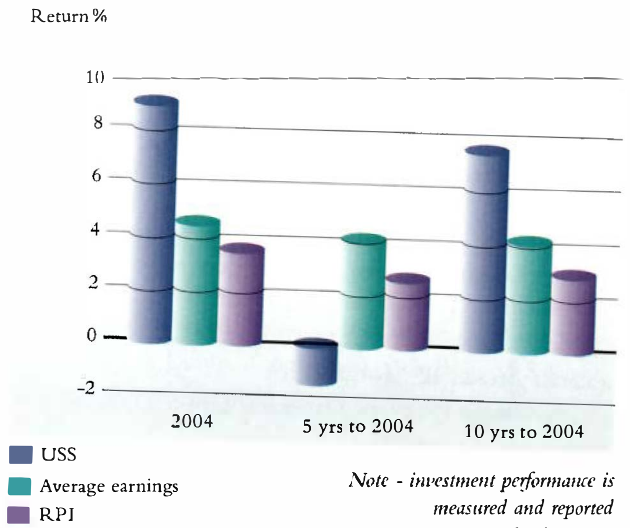
Tom Merchant
Chief Executive

FUND



The fund's investments have increased from £20 billion in 2001 to £21.7 billion as at 31 March 2005. There were good investment returns in 2003 and 2004 which helped to restore most of the losses that the fund had incurred in the three preceeding years. More details are given in the investment committee report on page 19 and in the five year summary of the fund accounts on page 75.

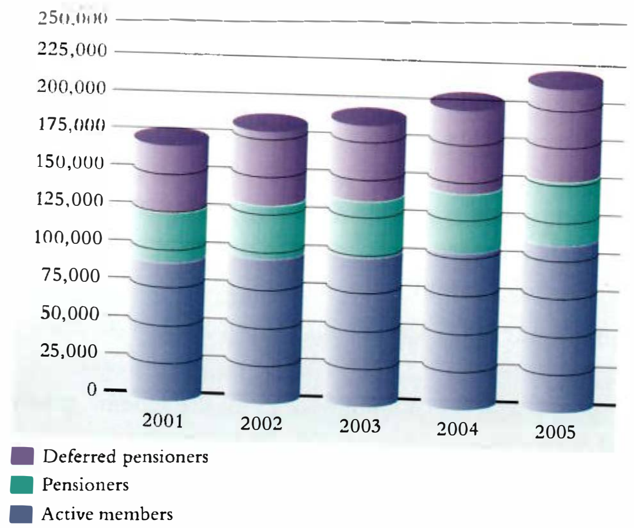
PERFORMANCE



Note - investment performance is measured and reported in calendar years.

Investment returns in 2003 and 2004 were good although poor returns in the previous three years had seen the fund return below both RPI and average earnings over five years. Over ten years, however, the fund return has comfortably exceeded both RPI and average earnings. More details are given in the report of the investment committee on page 19.

MEMBERSHIP



The membership of the scheme continues to grow steadily. As at 31 March 2005 the total membership was 214,900 an increase of 7.4% from last year and 26.5% from four years ago. More details are given in the five year summary of the fund accounts on page 75.

PRINCIPAL OFFICERS AND ADVISERS

The principal officers and advisers of the trustee company at 1 August 2005 are:

Chief Executive	T H Merchant
Chief Investment Officer	P G Moon
Chief Financial Officer	C S Hunter
Pensions Policy Manager	B Mulkern
Pensions Operations Manager	B Steventon
Company Secretary	I M Sherlock
Head of IT	I J Hall
Communications Manager	C G Busby
Surveyor	R G Walden
Actuary	E S Topper of Mercer Human Resource Consulting Limited Clarence House, Clarence Street, Manchester M2 4DW
Solicitors	DLA Piper Rudnick Gray Cary UK LLP India Buildings, Liverpool L2 0NH
Auditors	KPMG LLP, St James' Square, Manchester M2 6DS
Bankers	Barclays Bank Plc, 4 Water Street, Liverpool L69 2DU

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

Solicitors	Clifford Chance, Dundas & Wilson, Lawrence Graham, Mitchells Roberton, Fried Frank Harris Shriver & Jacobson
Investment managers	Capital International Limited, Legal & General Assurance, Wellington Management International, Goldman Sachs Asset Management International Ltd, Merrill Lynch Investment Managers, Henderson Global Investors Limited
Investment consultants	Mercer Investment Consulting
Custodians	State Street, JP Morgan Plc
Investment performance measurement	Investment Property Databank Limited, HSBC
Retail property investment adviser and property manager	Jones Lang LaSalle
Commercial property investment adviser and property manager	DTZ Debenham Tie Leung
Property valuers	Colliers Conrad Ritblat Erdman
Computer software	Comino plc, Azlan Limited, Morse Limited, General Systems Limited
Website design	Anthony Hodges Consulting Ltd
Computer hardware	Hewlett-Packard Limited
Data recovery	Synstar Business Continuity Limited
Insurers	Royal & Sun Alliance

The trustee of Universities Superannuation Scheme (USS) is the trustee company, Universities Superannuation Scheme Limited (USS Ltd), which is appointed under USS rule 20.1. The statutory power of appointing new trustees applies provided that a new trustee may not be appointed without the approval of the joint negotiating committee.

The trustee company is also the administrator of the scheme for the purposes of the Income and Corporation Taxes Act 1988.

The registered office of the trustee company to which enquiries about the scheme generally or about an individual's entitlement should be sent is:

Universities Superannuation Scheme Limited, Royal Liver Building, Liverpool L3 1PY
Email: postbox@usshq.co.uk Tel: 0151 227 4711 Fax: 0151 236 3173

The membership at 31 March 2005 of the principal committees was as follows:

Management Committee

Appointed by Universities UK (UUK)
Sir Graeme Davies (Chairman), Professor Sir Martin Harris (Deputy Chairman), M S Potts, Baroness Warwick of Undercliffe
Appointed by the Association of University Teachers (AUT)
Lady Merrison, Professor Charles Sutcliffe, J W D Trythall
Appointed by the Higher Education Funding Councils (HEFCs)
Sir Howard Newby
Co-opted
A S Bell, Professor John Bull, M Butcher, H R Jacobs

Finance & General Purposes Committee

Appointed by the management committee
Professor Sir Martin Harris (Chairman), A S Bell, Professor John Bull, H R Jacobs, Lady Merrison, M S Potts, J W D Trythall, Baroness Warwick of Undercliffe

Investment Committee

Appointed by the management committee
A S Bell (Chairman), G Allen, H R Jacobs, Dr D C Nicholls, D Robins, Professor Charles Sutcliffe, J W D Trythall

Audit Committee

Appointed by the management committee
Dr Christine Challis (Chairman), Professor John Bull, Lady Merrison, M S Potts, Professor Charles Sutcliffe

Remuneration Committee

Appointed by the management committee
H R Jacobs (Chairman), A S Bell, M S Potts, J W D Trythall, Baroness Warwick of Undercliffe

Rules Committee

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

Advisory Committee

Appointed by UUK
Dr A Bruce, A D Linfoot, D W Sims
Appointed by AUT
Dr A Roger (Chairperson), P Burgess, A Carr

Nominations Committee

Appointed by the management committee
Professor John Bull (Chairman), Sir Graeme Davies, Professor Charles Sutcliffe, Baroness Warwick of Undercliffe

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
Dr J Anderson, Ms C Cheesman, D Guppy, J McAdoo, Dr T McKnight

MANAGEMENT COMMITTEE MEMBERS as at 1 August 2005

Sir Graeme Davies, Chairman

Graeme Davies (68) is currently President and Vice-Chancellor of the University of London. 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, Edinburgh, Glasgow, Paisley and Ulster universities. He sits on the board of Universities UK. He was appointed chairman of USS Ltd in 1996. He was Principal and Vice-Chancellor of the University of Glasgow from 1995 to 2003.

DIRECTORS

Sir Martin Harris

Martin Harris (61) is deputy chair of the North West Development Agency and Director of the Office for Fair Access. He has been a director of USS Ltd since 1 April 1991 and deputy chairman since 1 July 2004. He was Vice-Chancellor of the University of Manchester from 1992 to 2004 and Vice-Chancellor of the University of Essex from 1987 to 1992. He served as chairman of the Committee of Vice-Chancellors and Principals (now UUK) from 1997 to 1999.

Howard Jacobs

Howard Jacobs (52) 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.

Sir Howard Newby

Howard Newby (57) 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.

Michael Potts

Michael Potts (66) is Pro-Chancellor of the University of Liverpool, having served as President of the Council and Treasurer to the university between 1993 and 2004. 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.

Lady Merrison

Lady Merrison (66) was appointed the second pensioner director of USS Ltd in October 2003 succeeding Angela Crum Ewing. She was formerly a lecturer in medieval history at the University of Bristol. Following early retirement she served as a non-executive director in the fields of banking, media and health insurance. She is currently chairman of The HTV Pension Scheme and of Bristol Cathedral Council. She is also president of the Guild of Friends of the Bristol Royal Hospital for Sick Children.

J W D Trythall

Mr J W D Trythall (Bill), 60, 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 was subsequently 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.

Professor Charles Sutcliffe

Charles Sutcliffe (57) teaches finance at the ISMA Centre of the University of Reading; and previously worked at the universities of Newcastle and Southampton. 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.

Professor John Bull CBE

Professor Bull (65) was Vice-Chancellor of the University of Plymouth from 1989 until his retirement in 2002. An economist and accountant by discipline, he had a particular interest in the finance and management of higher education. He became a co-opted member of the USS board in 2004. His is currently chairman of the Plymouth Hospitals NHS Trust, the Devon and Cornwall Learning and Skills Council and of Dartington College of Arts.

Baroness Warwick of Undercliffe

Diana Warwick (60) 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.

Michael Butcher

Michael Butcher (58) became a co-opted member of the board on 1 November 2004 having retired from IBM where he held a variety of technical, sales and marketing positions in UK and Europe, latterly as Tivoli EMEA Marketing Director. He now runs his own marketing consultancy and is a member of the audit committee at Loughborough University. He continues to take an active interest in the effective use of IT.

MANAGEMENT COMMITTEE

The management committee submits its thirtieth 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. The deputy chairman, Mr Colin Donald, retired on 30 June 2004 and was succeeded as a co-opted director by Mr Michael Butcher on 1 November 2004. Professor Sir Martin Harris assumed the role of deputy chairman with effect from 1 July 2004.

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. 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.

A minimum of two and a maximum of four directors are co-opted directors who are appointed by the management committee with the prior approval of the joint negotiating committee and who are independent in that they have no connection with any of the participating employers. 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 directors shall serve for a maximum of three three-year terms, subject to it considering a further three-year term in exceptional circumstances (which would then be reported in this report). 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 contribute fully according to their specific skills and experience over the remaining term of their office.

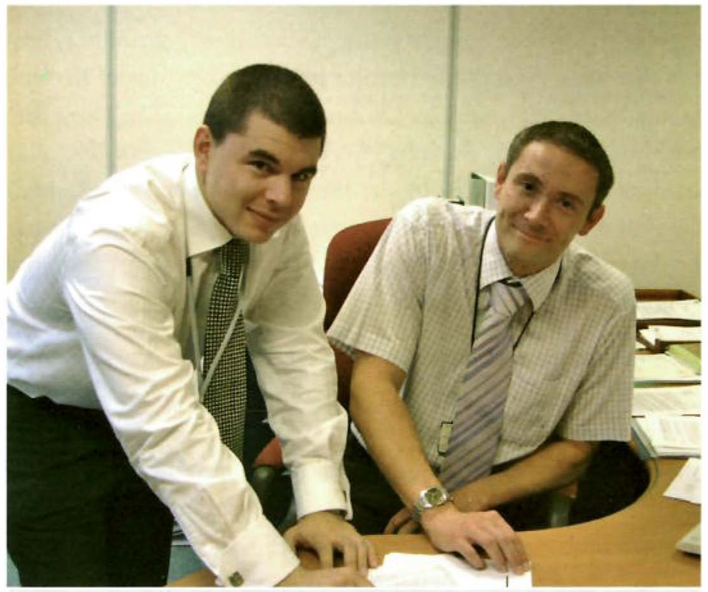
On appointment all directors receive detailed information from the company secretary relating to the trustee company, the scheme and their duties. This includes a trustee pack issued by the NAPF containing appropriate publications, including a copy of Pension Scheme Trustees issued by The Pensions Regulator.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

Performance evaluation

During the year consideration was given to the extent to which third parties might be able to assist in evaluating the performance of members of the board and its principal sub-committees. The view of the audit committee was that any third party should not be involved in a boxticking exercise but should involve appropriate input from relevant officers of the trustee company. Following discussions the management committee decided to accept a recommendation from the officers to use a Self Assessment Questionnaire which has recently been produced by Law Debenture. This is currently being completed by committee members and officers and the results assessed independently by the audit committee.

Responsibilities of the management and the executive

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



Alex Henley and Steven Golden - Pensions Policy

The specific responsibilities reserved to the management committee include: determining the investment policy and investment management structure of the fund; setting long term strategy and approving an annual budget for the trustee company; reviewing investment, operational and financial performance; approving scheme mergers and major capital expenditure; reviewing the organisation's systems of financial control and risk management; ensuring that appropriate management development and succession plans are in place; approving the appointment of independent directors (subject, on initial appointment, to the approval of the joint negotiating committee), members of sub-committees of the management committee and senior management; approving staff remuneration policy; approving amendments to the scheme rules (subject to the approval of the joint negotiating committee); the admission of new institutions and removal of existing institutions; determining policy on treatment of participating employers who leave the scheme; determining the schedule of contributions; determining interest rates to be charged or paid in specific circumstances; and compromising claims in excess of £50,000 (up to £200,000, above which funding council approval would be required).

The management committee has delegated the following responsibilities to the chief executive and the officers of the trustee company: managing the trustee company against plans and budgets; stock selection and asset allocation decisions (within bands approved by the management committee); the development and recommendation of strategic plans for consideration by the management committee; implementation of strategies and policies established by the management committee; exercise of trustee company discretion in the determination and payment of benefits. In particular, day-to-day investment decisions are the responsibility of the chief investment officer, reporting to the investment committee.

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

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

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

The chief investment officer is responsible for the investment performance of the internally managed fund, reporting on this to the investment committee and for monitoring the performance of the external investment managers and reporting on this to the investment committee.

Committee meetings

The number of full management committee meetings (including the meeting on 7 April 2005) and other committee meetings attended by each director during the year are shown below. Figures in brackets indicate the maximum number of meetings in the period in which the individual was a member of the relevant committee:

	Management	Investment	F&GPC	Audit	Remuneration	Rules	Nominations
Sir Graeme Davies	5 (5)	–	–	–	–	–	2(2)
Scott Bell*	0 (5)	3 (4)	3 (4)	–	2 (3)	–	–
Professor John Bull	3 (5)	–	3 (3)	1 (3)	–	–	2(2)
Michael Butcher	4 (4)	–	–	–	–	–	–
Colin Donald	1 (1)	1 (1)	1 (1)	1 (1)	1 (1)	–	–
Professor Sir Martin Harris	5 (5)	–	4 (4)	–	–	–	–
Lady Merrison	5 (5)	–	3 (4)	4 (4)	–	–	–
Sir Howard Newby**	1 (5)	–	–	–	–	–	–
Michael Potts	4 (5)	–	3 (4)	3 (4)	3 (3)	–	–
Professor Charles Sutcliffe	5 (5)	4 (4)	–	4 (4)	–	–	2(2)
Bill Trythall	5 (5)	4 (4)	4 (4)	–	3 (3)	7 (7)	–
Baroness Warwick	4 (5)	–	3 (4)	–	2 (3)	–	2(2)

*Mr Bell was absent from a number of meetings due to ill-health.

**Sir Howard Newby was absent from a number of meetings due to his attendance at HEFCE board meetings.

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

Institutions

At 31 March 2005 there were 367 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 228 other institutions.

Changes in institutions participating occurred as follows:

New participating institutions:

- Aston Academy of Life Sciences Ltd*
- Council for Christian Colleges & Universities UK (CCCU-UK)*
- East Malling Research
- Eduserv Technologies Limited
- ESCP-EAP European School of Management
- Horticulture Research International*
- INNOS Ltd*
- myscience.co Ltd
- Open University Childrens Centre
- Open University Students' Association
- Queen Victoria Blond McIndoe Research Foundation
- Roehampton University*
- Shared Care Network*
- Swansea Institute of Higher Education*
- The Higher Education Academy
- The Northern Consortium UK Ltd
- The Northern Consortium
- UC (Suffolk) Limited
- University of Central England in Birmingham*
- University College Worcester*
- University College Falmouth*
- University of Manchester

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

Institutions which ceased to participate:

- AURIS Ltd
- East Grinstead Medical Research Trust
- University of Wales College of Medicine
- UMIST
- Victoria University of Manchester

Scheme membership

During the year 19,634 new members joined the scheme and at 31 March 2005 the total membership, including pensioners and those entitled to deferred benefits, was 214,900 compared with 199,000 a year earlier. Further details of the changes in membership during the year are contained in the section "Membership Statistics" on page 45 and over the five years ended 31 March 2005 in the summary on page 75.

The proportion of eligible new employees choosing not to join USS was 18% compared with 20% last year.

Members are now able to share pension scheme benefits with their ex-spouse in the event of divorce. There were 2,468 requests for information up to 31 March 2005 and 159 ex-spouses now have benefits within the scheme in their own right as a result of pension sharing.

Expansion and flexibility

Three mergers with USS institution pension schemes have been undertaken during the year as part of a path-finding exercise, and a number of learning points have been gathered ahead of any wider promotion of the scheme's expansion policy. A moratorium on further mergers was put in place so that a full review could be carried out by a working party of the management committee, the details of which are reported below.

The government's pensions reform

During the year the government has unveiled the detail of its reform of pension schemes, which represents the most radical overhaul of pension provision for many decades. The primary legislation (the Pensions Act 2004 and the Finance Act 2004) came into force in the period, together with a number of associated regulations, and some of these provisions started to have effect during the year, with more to follow during 2005/06. An internal project team has been established to manage the implementation of the reforms, and through Universities UK the trustee company has undertaken a consultation with employers on key aspects of the reforms, and decisions in five key areas (relating to the tax simplification changes) have been taken. The trustee company has also made representations regarding the Pension Protection Fund (PPF), which came into force on 6 April 2005, and its application to a large multi-employer scheme such as USS. The scheme is not exempt from the PPF, but a key issue which the trustee company is seeking to influence is the precise construction of the risk-based levy which is required to be paid.

Rule amendments

During the year rule changes were considered by the committee which resulted in one amending deed being executed (the first supplemental amending deed to the 1 October 2003 consolidation of the rules). Details of the rule amendments are given in the report of the joint negotiating committee on page 30.

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 – the new incapacity arrangement that was agreed by the management committee at its meeting held on 17 June 2004 was introduced from 1 September 2004. Since its introduction there have been 23 partial incapacity and 138 total incapacity cases. The officers continue to monitor the arrangement and report regularly to the advisory committee on its progress.

Expansion working party – the working party was established to review the trustee company's expansion policy, and to recommend whether a continued policy was appropriate and if so, what features should be included so as to ensure that it continues to protect the interests of the scheme's beneficiaries whilst meeting the needs of the sector. The working party, which comprised six directors of the trustee company, met on four occasions during the year, with a view to final recommendations being made to a meeting of the management committee in the early summer.

Irregular working party – the working party met on four occasions during the year, and continued its review of the scheme's arrangements for employees who hold more than one pensionable employment under the scheme. Its first work area is to review the rules as they apply to individuals who hold a variable time post in addition to a regular post, and following this to look at those USS members with more than one regular employment. The work of the group is set to continue into 2005, and it is anticipated that the first of the related rule amendments will emerge in the autumn of 2005.

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 2.8% on 21 April 2004.

On 21 April 2005 USS pensions which satisfied certain qualifying conditions and began before 27 April 2004 were increased by 3.1% 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 for Work & Pensions, as are increases in excess of 3% on that part of the pension which represents the post-1988 GMP. More detail on the way in which increases are applied to the GMP is given in the USS booklet 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 2004 and 31 March 2005 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 actuarial valuation as at 31 March 2005 is currently underway and will be completed before the end of the 2005. The results will be communicated to all interested parties prior to the meeting of the institutions' representatives in London on 1 December 2005 when it will be one of the main items on the agenda.

A separate statement by the management committee on the scheme's funding position, which incorporates the results of the 2002 actuarial review and further appropriate reviews since that date, is published on page 34. The statement is published following full discussion with, and with the approval of, the actuary. There is therefore no separate statement by the actuary on the review.

Meanwhile the actuary has recommended to the management committee that no change be made in the institutions' contribution rate.

Accounting matters

The accounts of Universities Superannuation Scheme for the year ended 31 March 2005 are set out on pages 59 to 67; and the trustee's summary of contributions and auditors' statement about contributions are set out on pages 69 and 72. The accounts have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

The accounts of Universities Superannuation Scheme Limited (the trustee company) are set out on pages 76 to 87 and show an increase in operating costs from £24.0 million in 2003/2004 to £25.1 million in 2004/2005. This represents a 2% decrease in administration costs and an 8% increase in investment management costs.

As was reported last year, a number of administrative costs incurred in the year to 31 March 2004 were non-recurring and this has contributed to the decrease in administration costs this year. The increase in investment costs arises largely following the change in the investment management structure from 1 April 2004, with the external balanced managers being replaced by specialist managers.

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

Investment policy

The arrangements for management of the assets and custody, together with the approximate proportion managed by each manager at 31 March 2005, are as follows:

(a) 58.8% is managed internally by the trustee company's London Investment Office (with JP Morgan as custodian), of which 50.4% are securities (or cash) and 8.4% are property assets. The internally managed fund has a balanced mandate.

(b) 9.2% is managed by Capital International Limited (with State Street as custodian) with a global equity mandate;

(c) 9.4% is managed by Wellington Management Company (with State Street as custodian) with a global equity mandate;

(d) 4.7% is managed by Goldman Sachs Asset Management International (with State Street as custodian) with a UK equity mandate;

(e) 4.6% is managed by Legal & General Investment Management (with State Street as custodian) with a UK corporate bond mandate;

(f) 12.3% is administered internally on the advice of HSBC James Capel Quantitative Techniques with a mandate to track the FTSE All-Share Index of UK equities (with JP Morgan as custodian);

(g) 1.2% is managed by Henderson Global Investors Limited with a mandate to provide an enhanced return to that of the FTSE All-Share Index of UK equities (with JP Morgan as custodian);

The year to 31 December 2004 was another relatively good year for pension fund performance generally with positive returns for the average fund for the second consecutive year following three years of negative performance. The fund returned 8.9% for the year, below its benchmark return of 11.7%, although part of the underperformance was due to the cost of the transition to the new investment management structure at 1 April 2004.

Further details of the investment targets, investment performance and amounts managed by each manager are given in the report of the investment committee on page 19.

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 the revised investment management structure and the final text, which was agreed following consultation with the participating employers, appears on pages 40 to 44.

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 Ltd website, as is the full statement of investment principles.

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;
- appropriate risk management systems are in place.

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

Internal audit within the trustee company consists of the head of internal audit, 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 head of internal audit, in conjunction with senior management, carries out a formal evaluation of the risks facing the organisation and the audit programme is determined in the light of this evaluation. The chief executive's management group considers reports each month from the internal audit manager and reviews the risk management and control process to consider whether any changes to internal controls, or responses to changes in the levels of risk, are required. Any weaknesses identified in these reviews are discussed with management and an action plan is agreed to address them. Through regular reports by the head of internal audit, 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. All statutory and internal targets have been met satisfactorily.

A feasibility study commenced in November 2004 into either the implementation of a major upgrade to our existing systems or the introduction of a new system from an alternative supplier. A report on the findings of that feasibility study will be considered shortly by the Finance & General Purposes Committee and its recommendation will subsequently be considered by the management committee.

Jim Armitage, Allison Tarleton, Clare Raymond and Philip Brayne
Investment Accounting

The annual meeting with institutions' representatives took place in London in December 2004 with a report of the proceedings available on our website.

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

During the year there were four instances of late payment of contributions by institutions: one was the late payment of premature retirement scheme contributions and three were late payment of employee and employer contributions. Each late payment occurred as a result of an administrative problem or oversight by the institution concerned and in each case contributions were subsequently remitted in full. None of the late payments were reported to OPRA.

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

OPRA was replaced by The Pensions Regulator on 6 April 2005. The Pensions Regulator was created by the Pensions Act 2004 and is the new regulator for pension schemes in the UK. The Pensions Regulator issued guidance in May 2005 on the circumstances in which trustees of occupational pension schemes should report late payments of contributions. The guidance covers the period until a scheme becomes subject to the new scheme funding requirements, and confirms that trustees are only required to report where late payment constitutes a significant risk to the members' interests or the payment is still outstanding after 90 days, applicable from September 2005.

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

Shelagh O'Grady - Fund Accountant, Contributions & Payroll

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, around one sixth of employees eligible to join USS have elected not to do so, which means that they will either be participating in State Second Pension or have a personal or stakeholder pension, or a combination of these arrangements. It should be noted that the rules of USS prevent an institution from paying contributions (in respect of an "eligible employee" under the rules) to a pension arrangement other than USS.

Retirement age for deferred members

In accordance with the Court Order agreed on 29 April 2004 we wrote to all institutions in November 2004 asking for details of the contractual terms used for past and current members of USS. We wanted to establish whether the contracts issued by institutions expressly or implicitly granted a right to retire before age 65 on an unreduced pension. Where a member has such a right, that member's contractual pension date is the earliest date he/she would be entitled to retire on an unreduced pension from USS under the terms of his/her appointment or contract of employment.

This information was required so that we could identify which former members of the scheme who had retired or transferred their benefits out of USS would be entitled to an additional payment. We also needed the information to identify the date that current deferred pensioners in the scheme could draw their benefits without actuarial reduction.

We now have this information for over 90% of the membership. Where an institution has provided the information we have started to search our records to identify individuals who meet the criteria set out in the court order. In the case of former members who transferred their benefits out of USS we are contacting the receiving scheme and offering to make a further payment. Where the affected former member has retired we are calculating arrears of pension and lump sum due plus interest. This part of the rectification exercise began in June 2005 and is expected to continue for 12 months.

We have now amended our procedures to collect this information for all new members of the scheme and to note any changes in contractual pension date when a member moves between

institutions. This is because benefits are based on a member's contractual pension date in respect of his final appointment prior to leaving the scheme.

A provision in respect of benefits underpaid as at 31 March 2005 is included in the financial statements of USS.

Communications

Development of the website continued throughout the year. Two important new features were introduced after trials with selected institutions and monitoring by the institution advisory panels. In September all institutions were given online access to view member data. This has proved to be very helpful for institutions when trying to resolve year-end salary and contribution queries. Another enhancement was made in December when institutions were given the option to email joiner and leaver forms to USS Ltd. Approximately 40% of these forms are now submitted in this way enabling institutions to make considerable savings in time, postage and printing costs. A search engine was also added to the website in December.

USS Ltd has entered into an innovative arrangement with the Personal Finance Society to provide members and institutions with access to independent financial advisers (IFAs) who are suitably qualified to advise on increasingly complex pension issues. A new section has been added to the website to provide IFAs with up to date information about USS and a list of IFAs participating in the arrangement can be obtained from the website.

The changes in pensions legislation introduced in the Finance Act 2004 will affect all members of USS to some extent but some high earning members will be faced with a number of complex issues concerning the protection of their pension benefits, built up prior to the introduction of the new legislation on 6 April 2006. To help those members who might be affected, and their employers, to deal with these complex issues we have developed a modeller that will allow them and their advisers to obtain personal illustrations of how the new regulations might apply to them.

The programme of member presentations included 35 institution visits, addressing approximately 3,500 members. These presentations have provided an opportunity to update members on the new incapacity retirement arrangements and to explain the likely impact of the government's pension reforms on USS members.

The institution advisory panels continued to meet during the year. The number of institutions that are represented on the panels has increased to 22. The feedback provided on proposed changes and new procedures is very valuable to USS Ltd and we are grateful for the contribution made by panel members.

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.

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

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

USS has had no employer-related investments during the year.

Acknowledgements

The chairman would like to thank Mr Donald for his exemplary contribution to committee matters, wise judgement, sensitivity and humour. He had always been constructive in his comments and keen to help the chairman and officers of the trustee company. His efforts had been appreciated by all.

The management committee also wishes to record once again 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. Throughout the report, performance returns relate to calendar years, which is the investment industry standard:

HIGHLIGHTS

- Stock markets were less favourable in 2004 than 2003. However, despite the change of managers and transition costs incurred during the calendar year the fund returned 8.9%.
- The ten-year return of the fund stands at 7.4% per annum compared with earnings growth of 4.1% per annum and retail price inflation of 2.7% per annum.
- Including net cashflow and capital movements, the value of investments in the fund rose from £19.4 billion at 31 March 2004 to £21.7 billion at 31 March 2005.
- The targets set for the year were very testing and the majority of the managers underperformed their benchmark returns over the period during which they were managing their respective portfolios.
- Given the return profile expected from assets over the medium to long term, the investment committee decided to review whether there should be a greater level of investment than is currently permitted in asset classes other than equities, bonds and property. A two-day meeting in early May, involving the investment committee, officers and other senior members of the London Investment Office, agreed that further detailed analysis was justified and that is in hand. Additional comment on progress will be made at the institutions' meeting in December 2005 and in the report and accounts next year.

Manchester Fort Shopping Centre

- USS continues to take a leading stance on corporate governance and other extra-financial issues, as described in Responsible Investment below. The underlying theme remains encouraging investors and those companies in which they invest to give appropriate weight to issues likely to affect value in what, by most conventional investment criteria, is the comparatively distant future. e.g. five. ten, even twenty years time.

INVESTMENT MANAGEMENT

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

The balance of the fund is run on specialist mandates, with Capital International and Wellington having a global equity remit; Goldman Sachs a UK equity remit and Legal and General a corporate bond mandate. All these managers are rewarded partly on an ad-valorem basis and partly on their performance.

Jones Lang LaSalle and DTZ Debenham Tie Leung advise on investment and property management of the retail and commercial portions of the property portfolio respectively. For these services they are remunerated primarily through a management fee and, in some cases they may benefit from transaction fees. The investments are stated at market value and details of the changes and value are summarised in note 9 of the USS accounts on page 64.

RESPONSIBLE INVESTMENT

As explained more fully in previous reports, the committee believes that the members of USS are best served by the investment professionals who have direct stewardship of USS's assets giving due consideration, as an integral part of their investment decision-making, to extra-financial issues such as good corporate governance practices and sound management of social, environmental and ethical issues. This is of particular importance given that the fund is receiving money for investment today to provide pensions in more than fifty years time.

Grand Arcade development, Cambridge

TOTAL INVESTMENTS OF THE FUND

Type of Investment	Fixed Interest £m	Index-Linked £m	Equities £m	Properties £m	Cash and Equivalent £m	31 March 2005 Total £m	Total %	31 March 2004 Total £m	Total %
Investments under the direct control of USS Ltd									
Quoted securities									
UK	202.3	–	4,084.1	–	–	**4,286.4**	**19.8**	**3,856.2**	**19.9**
Overseas	559.8	–	5,855.0	–	–	**6,414.8**	**29.6**	**5,449.5**	**28.1**
Property									
UK	–	–	–	1,799.6	–	**1,799.6**	**8.3**	**1,624.6**	**8.4**
Cash/stockbroker balances									
UK	–	–	–	–	155.0	**155.0**	**0.7**	**94.3**	**0.5**
Overseas	–	–	–	–	76.6	**76.6**	**0.4**	**112.1**	**0.6**
Sub-total	762.1	–	9,939.1	1,799.6	231.6	**12,732.4**	**58.8**	**11,136.7**	**57.4**
Investments managed internally on the basis of external advice									
Index fund									
UK	–	–	2,634.0	–	25.1	**2,659.1**	**12.3**	**2,323.5**	**12.0**
Investments managed externally (passive)									
Henderson									
UK	–	–	252.8	–	–	**252.8**	**1.2**	**219.3**	**1.1**
Sub-total	–	–	2,886.8	–	25.1	**2,911.9**	**13.4**	**2,542.8**	**13.1**
Investments managed externally (active)									
Capital International									
UK	–	–	302.2	–	9.9	**312.1**	**1.4**	**325.0**	**1.7**
Overseas	–	–	1,656.0	–	9.0	**1,665.0**	**7.7**	**1,556.8**	**8.0**
Wellington									
UK	–	–	217.4	–	3.5	**220.9**	**1.0**	**139.7**	**0.7**
Overseas	–	–	1,797.8	–	24.1	**1,821.9**	**8.4**	**1,719.5**	**8.9**
GSAM									
UK	–	–	991.7	–	30.2	**1,021.9**	**4.7**	**921.5**	**4.7**
Overseas	–	–	–	–	–	**–**	**–**	**10.4**	**0.1**
Legal & General									
UK	944.9	–	–	–	52.3	**997.2**	**4.6**	**936.3**	**4.8**
Overseas	–	–	–	–	–	**–**	**–**	**–**	**–**
Transition									
UK	–	–	–	–	–	**–**	**–**	**62.8**	**0.3**
Overseas	–	–	–	–	–	**–**	**–**	**54.4**	**0.3**
Baillie Gifford & Schroder									
UK	–	–	–	–	–	**–**	**–**	**0.1**	**–**
Overseas	–	–	–	–	–	**–**	**–**	**0.2**	**–**
Life Assurance Policies									
UK	–	–	–	–	–	**–**	**–**	**3.7**	**–**
Overseas	–	–	–	–	–	**–**	**–**	**–**	**–**
Sub-total	944.9	–	4,965.1	–	129.0	**6,039.0**	**27.8**	**5,730.4**	**29.5**
Total investments									
UK	1,147.2	–	8,482.2	1,799.6	276.0	**11,705.0**	**54.0**	**10,507.1**	**54.1**
Overseas	559.8	–	9,308.8	–	109.7	**9,978.3**	**46.0**	**8,902.9**	**45.9**
Total	1,707.0	–	17,791.0	1,799.6	385.7	**21,683.3**	**100.0**	**19,410.0**	**100.0**
Percentage at 31 March 2005									
UK	5.3	–	39.1	8.3	1.3		**54.0**		
Overseas	2.6	–	42.9	–	0.5		**46.0**		
Total percentage	7.9	–	82.0	8.3	1.8		**100.0**		
Total percentage at 31 March 2004	8.6	–	80.7	8.4	2.3				**100.0**

The responsible investment team has continued to implement USS's strategy of being an active and responsible owner, playing a leading role in a number of initiatives which the committee believes will both protect and enhance the value of the fund over the long term. Examples include a continuing focus on the investment risks associated with climate change (via membership of the Institutional Investors Group on Climate Change), with the investment risks relating to the pharmaceutical sector business model (via PharmaFutures) and with corporate governance practices in the US. The responsible investment team has also played a key role in establishing the Enhanced Analytics Initiative, with USS providing financial and human resource support, including serving as chair and secretary of the EAI steering committee until the end of 2005. Launched in November 2004, the Enhanced Analytics Initiative has already played a significant role in encouraging sell-side brokers, who have considerable influence over both corporate management and investors, to include extra-financial issues into investment research.

More broadly, the committee is also encouraged that several major pension funds and leading experts are now voicing support for a more long-term approach to investment management. USS has been involved from the outset of this debate as a result of the joint competition with Hewitt Associates (Managing Pension Funds as if the Long Term Really did Matter) and the follow-on project (the Marathon Club). Learning from these projects is being integrated into all aspects of how USS operates and this is, by definition, an on-going project.

The investment committee is reassured by the results of the survey of member knowledge of, and attitudes towards, USS's approach to responsible investment which was undertaken during the year. Approximately 5% of USS's total membership replied and some key findings were as follows:

- Over 80% of respondents either agreed or strongly agreed with the statement: 'I am aware of the responsible investment activities of USS'.
- Over 90% of respondents either agreed or strongly agreed with the statement: 'It is important for a large scheme such as USS to have a policy on responsible investment';
- Two-thirds of respondents either agreed or strongly agreed with the statement: 'The shareholder engagement approach is the most appropriate method for USS to encourage good standards of corporate governance'.

USS INVESTMENT PERFORMANCE RESULTS

From 1 January 2004 the fund adopted a new benchmark which is as follows:

UK equities	40%
Overseas equities	40%
Fixed interest	10%
Property	10%

This compares to the benchmark adopted on 1 January 2003, where the equity content still stood at 80% but the split was 55% UK equities and 25% overseas equities. The adoption of the new benchmark and the move to specialist managers during the first quarter of 2004 makes performance measurement of the entire fund difficult because of the associated costs of transition and the restrictions placed on dealing during that period. It also makes the measurement of the individual managers impossible for the entire calendar year and therefore nine months figures for the external specialist managers are shown. Full year figures are shown for the London Investment Office, where there is a substantial negative impact from the transition costs during the first quarter.

The performances of Capital International, Wellington, Goldman Sachs and Legal and General are taken from 1 April 2004 to reflect the period of their new mandates.

The returns to 31 December 2004 are as follows:

	% Fund Return	% Benchmark Return
LIO*	9.3	10.8
Capital International *(from 1.4.2004)*	4.7	9.2
Wellington *(from 1.4.2004)*	9.4	9.1
Goldman Sachs *(from 1.4.2004)*	7.1	12.1
Legal & General *(from 1.4.2004)*	5.8	5.8
UK Index	12.9	12.8
Henderson	12.7	12.8
Property	13.8	18.0
Total Fund	8.9	11.7

* Excluding the impact of the transition, the LIO performance in 2004 would have been 10%. This adjustment enables a fairer assessment to be made between the different managers.

Longer term results

Because of the changes in benchmarks and external managers over the past three years it is difficult to evaluate performance over the five or ten year period on a comparative basis. The change in benchmark from one related to peer group to an index related benchmark is in line with the recommendations from the Myners Review.

Over the five year period the fund has returned -1.4% per annum against an increase in the retail price index of 2.6% and average earnings of 4%. This is an unsatisfactory performance. However, over the ten year period the return of 7.4% on the fund compares with an increase in retail prices of 2.7% per annum and average earnings of 4.1% per annum.

PROPERTY

The property sector produced its highest returns in over ten years with a total return of 18% for the calendar year 2004. This very high level of performance was mainly due to lower investment yields as private and institutional investors continued to favour property. Nevertheless, property's income return remains relatively high at 6% and with rental growth now occurring, we expect further yield movement in 2005 and double figure total returns for the third year running.

Although retail, and retail warehouses in particular, was once again the best performing sub-sector, offices and industrials have closed the gap and their performance is likely to overtake that of retail for the next few years.

Acquiring new stock proved extremely challenging in the competitive market and attention was given to selling properties where favourable prices could be achieved. Properties with a combined value of approximately £60 million were sold and these included a small vacant office building in Berkeley Square W1, a part vacant office building in Bury Street EC3 and a shop unit at 107/108 Princes Street Edinburgh. The fund's substantial exposure to Stockley Park, Heathrow was also reduced through the sale of a building at 7 Roundwood Avenue.

The fund was able to continue its strategy to increase its weighting in retail parks through the acquisition of White Lion Retail Park at Dunstable for £30 million and in early 2005 the Fort Retail Park, Manchester, which is due for completion in September this year, having been

The Gyle Shopping Centre, Edinburgh

forward purchased for £177 million. A small industrial investment was made at Milton Keynes for £13.1 million and in partnership with Grosvenor, the fund invested £6.2 million in 370 acres of mainly greenbelt and "brown" land at junction 11 of the M11.

The fund's portfolio produced a total return of 13.8% for the calendar year to December 2004 and for the ten-year period, has produced an annualised return of 10.2% pa.

The direct property portfolio was independently valued as at 31 March 2005 by Colliers Conrad Ritblat Erdman at £1,701.9 million and a breakdown by type and location is shown below.

The fund also had a total of £97.7 million invested in indirect property vehicles as at 31 March 2005. This includes the fund's 80% share of the Grand Arcade shopping centre development at Cambridge.

	Freehold £m	Leasehold £m	Total £m	%
Retail	685.7	32.5	718.2	39.9
Retail warehouse	212.5	–	212.5	11.8
Office	150.9	18.5	169.4	9.4
Business space	178.8	6.5	185.3	10.3
Industrial	273.5	18.6	292.1	16.2
Agricultural	0.4	–	0.4	–
Developments	98.5	25.5	124.0	6.9
TOTAL	1,600.3	101.6	1,701.9	
Indirect property vehicles			97.7	5.4
TOTAL property			1,799.6	100.0

Net income for the year to 31 March 2005 decreased from £82.1 million to £78.7 million. This reduction in income was due mainly to property sales that took place in the year to 31 March 2004.

DISTRIBUTION OF ASSETS

The portfolio distribution as at 31 March 2005, along with the comparative figures for the preceding year, is set out below:

	2005			2004		
	£m	£m	%	£m	£m	%
UK fixed interest						
British Government						
Conventional	222.4			188.7		
Index-linked	–			4.0		
Other debentures & loan stocks	924.8			866.3		
		1,147.2	5.3		1,059.0	5.5
Overseas fixed interest						
North America	316.2			310.9		
Europe	99.9			–		
Japan	143.7			302.0		
Far East	–			–		
Other	–			–		
		559.8	2.6		612.9	3.2
Total fixed interest		1,707.0	7.9		1,671.9	8.7
UK equities						
Resources	1,430.0			1,125.6		
Basic industries	259.4			251.5		
General industrials	285.6			221.2		
Cyclical consumer goods	15.7			18.4		
Non cyclical consumer goods	1,387.0			1,286.5		
Cyclical services	1,223.8			1,216.6		
Non cyclical services	987.9			910.8		
Utilities	291.2			220.9		
Information technology	149.7			100.2		
Financials	2,195.9			2,009.2		
Collective investment schemes	3.2			3.3		
Managed funds	252.8			219.3		
Derivatives	–			–		
		8,482.2	39.1		7,583.5	39.1
Overseas equities						
America	2,587.6			2,235.6		
Japan	1,761.2			1,640.7		
Europe	2,853.1			2,669.0		
Far East	1,761.9			1,377.7		
Other	345.0			165.3		
		9,308.8	42.9		8,088.3	41.7
Total equities		17,791.0	82.0		15,671.8	80.8
Total securities		19,498.0	89.9		17,343.7	89.4
Property (incl. indirect property)		1,799.6	8.3		1,624.6	8.4
Cash deposits		280.6	1.3		350.0	1.8
Other Investment balances		105.1	0.5		88.0	0.4
Total investments (excluding life assurance policies)		21,683.3	100.0		19,406.3	100.0

LARGEST EQUITY HOLDINGS

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

	Value £m	%
BP	597.4	2.8
Vodafone Group	592.3	2.7
HSBC Hdg	516.3	2.4
Glaxosmithkline	426.6	2.0
Royal Bank of Scotland	315.4	1.5
Shell Trans & Trad	310.5	1.4
Astrazeneca	247.0	1.1
Barclays	219.7	1.0
HBOS	207.2	1.0
Tesco	144.2	0.7
Lloyds TSB Group	137.1	0.6
Novartis R	132.7	0.6
Anglo American	120.1	0.6
Rio Tinto	118.2	0.5
BG Group	105.3	0.5
National Grid Transco	104.9	0.5
Unilever	104.4	0.5
Prudential	102.2	0.5
BHP Billiton	98.2	0.5
Bank of America	96.5	0.4
	4,696.2	21.8

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

Signed on behalf of the investment committee.

H R Jacobs
Acting 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 with limits agreed by the management committee.
- Monitors communication with, and levels and quality of service provided to, member institutions and individual members.

The committee members are appointed by the management committee and currently comprise eight members. Of the committee's eight members, three are UUK appointees to the management committee, two are AUT appointees and three are co-opted appointees. Mr Donald retired on 30 June 2004 and was succeeded as chairman by Professor Sir Martin Harris. We are grateful to Mr Donald for his immense contribution to the committee's deliberations. Professor John Bull was appointed to the committee with effect from 1 March 2004.

During the year, the committee has met on four occasions and has considered matters such as the preservation and the USS rules, the rule change process, independent financial advisers, expansion of USS and flexibility of arrangements, the Public Sector Transfer Club, corporate performance of USS Ltd, new transfer value arrangements, USS Ltd's business plan and the government's pensions reform.

Signed on behalf of the finance & general purposes committee.

Professor Sir Martin Harris
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 members are appointed by the management committee and currently comprise five members. Mr Colin Donald retired on 30 June 2004 and was succeeded on 1 July 2004 by Professor John Bull. We thank Mr Donald for his considerable contribution as a member of the committee. Of the five current members, one is a UUK appointee to the management committee, two are AUT appointees and one is a co-opted appointee. The committee is chaired by Dr Christine Challis, an independent appointment made by the management committee. At least one member of the committee possesses what the Smith Report describes as recent and relevant experience. During the year, the committee has met on five occasions. It has also met with the external auditor and the internal auditor privately each on one occasion without any officers being present.

During the year, the committee has, inter alia:

- reviewed the accounts of both the trustee company and the scheme prior to approval by the management committee;
- reviewed the the external auditor's strategy for the audit of the accounts of the trustee company and the scheme;
- reviewed the internal audit function's terms of reference, its work programme and quarterly reports on its work during the year;
- received regular reports from the compliance officer;
- undertaken a pensioner verification exercise;
- expressed its continued 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 considers and reports on matters relating to the employment, remuneration and termination of contracts for employees within USS Ltd. It sets salaries, pay levels and performance criteria by which all staff are rewarded, with the exception of the chief executive and the chief investment officer.

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 and from the management committee and currently comprises five members; two are UUK appointees to the management committee, one is an AUT appointee and two are co-opted appointees of whom one, Mr Jacobs, is the chairman. Mr Colin Donald retired on 30 June 2004 and was not replaced. We thank him for his significant contribution as a committee member.

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

- salary awards to employees at the Liverpool and London offices;
- London office bonus scheme;
- employment statistics within both the Liverpool and London offices.

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.

H R Jacobs
Chairman

JOINT NEGOTIATING COMMITTEE

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

With effect from 1 September 2004, Ms J McAdoo replaced Dr J M Goldstrom as an AUT representative.

The committee met on five occasions during the year. Rule changes were considered by the committee which resulted in one amending deed being executed (First Supplemental Amending Deed). This amending deed introduced a revised, two-tier arrangement for members who retire on grounds of incapacity, with different levels of benefit payable depending upon whether a person is suffering from partial incapacity or total incapacity.

The committee continued its consideration of the government's pensions reform proposals, which provide for some of the most radical changes seen for many years affecting pension schemes. In addition, the working party of the JNC dealing with employees who hold regular and variable time employments has met on four occasions during the year, and has made progress to clarify the scheme's provisions, and help administrators and institutions deal with the application of the USS rules, for employees holding multiple employments. The committee has also considered refinements relating to areas of the scheme which presently cause administrative difficulty, and in the development of a solution to deal with the pension implications of the introduction of the new pay framework agreement within the sector.

Signed on behalf of the joint negotiating committee.

Sir Kenneth Berrill
Chairman

ADVISORY COMMITTEE

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

Three full meetings were held during the year. Mr A D Linfoot fulfilled the role of chairperson until December 2004 at which time Dr Roger assumed the role of chairperson.

The majority of questions raised on the application or interpretation of the rules of USS were dealt with by the senior officers. The three cases 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, were two cases involving the payment of a dependant's pension and one case involving the trustee company's discretion to pay death benefits on a member's death in service.

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

- upheld the previous decision in two cases; and
- resulted in a recommendation being accepted by the management committee to grant an award in two cases.

Signed on behalf of the advisory committee.

A Roger
Chairperson

RULES COMMITTEE

In conjunction with the officers and the scheme's professional advisers, the rules committee devises and maintains procedures for all aspects of the rule amendment process, having particular regard to the desirability of simplifying those rules which are most complex, whether in terms of intelligibility or of administration.

During its second year the committee has overseen the introduction of the First Supplemental Amending Deed, further details of which are included in the report from the joint negotiating committee. The committee has also been involved in the following activities:

- Producing recommendations to the management committee on the overall approach to the government's tax simplification reforms contained within the Finance Act 2004, and where appropriate compiling the brief for necessary rule amendments.
- Overseeing the introduction of various aspects of the Pensions Act 2004, which has included the lobbying of government departments to express the views of the trustee company with regard to its status for the purposes of the Pension Protection Fund.
- Looking at areas of the scheme which present administrative difficulty, undertaking detailed analysis where relevant to enable solutions to be considered alongside the JNC and management committee.
- Assisting the management committee in its interpretation of other technical areas of pensions legislation, for example the changing rules relating to employers withdrawing from pension schemes.

The committee met on six occasions during the year.

Signed on behalf of the rules committee.

H R Jacobs
Chairman

NOMINATIONS COMMITTEE

The nominations committee was established under the authority of the management committee to deal with all matters relating to the appointment of co-opted directors and to make appropriate recommendations to the management committee.

The committee's members are appointed by the management committee and comprise the chairman of the trustee company, a UUK appointed director, an AUT appointed director and a co-opted director who acts as chairman. The committee supplements that membership to include, if necessary, expertise appropriate to the particular appointment

The committee met on two occasions during the year to select and recommend to the management committee a successor to Mr Donald who retired on 30 June 2004.

Signed on behalf of the nominations committee.

Professor John Bull
Chairman

TRUSTEE'S FUNDING STATEMENT

Overview/summary

The funding statement gives some of the background and detail surrounding the nature of the scheme and its financial position in a number of different circumstances (for example if life continues exactly as is, if all the members were to leave and transfer their benefits to other arrangements immediately and if the scheme were to be wound-up).

The key points in the statement are, broadly:

- The scheme aims to deliver a defined set of benefits based on service and salary. The financing of these benefits is provided, mainly, by the sponsoring institutions.
- Nobody knows exactly how much it will cost ultimately to provide the pension scheme benefits.
- In view of this the finances of the scheme are checked regularly to see how well the fund is shaping up. The key driver is how well the investments have performed relative to the growth of the liabilities. The liabilities are, of course, the benefits of the scheme.
- If investments perform very well then it may be possible to improve benefits or reduce institutions' contributions; more likely, unless performance is exceptional and sustained, improved returns would be used to back continuation and protection of the current level of contribution rates; if investments perform badly then there may be a need for institutions to contribute more to deliver the benefits.
- The current financial position of the scheme is simply a "snapshot" as at the valuation date and can vary in the future depending on the actual experience of the scheme.
- The actuary has advised that (making appropriately prudent actuarial assumptions) the long-term funding position is satisfactory, with assets in hand broadly covering the liabilities which have accrued to the valuation date (even allowing for future salary increases for active members). On the assumption that all the actuary's long-term assumptions are borne out in practice there was a surplus of £162 million as at the 31 March 2002 valuation, the assets covering 101% of the past service liabilities.
- Were the scheme terminated at the 2002 valuation date there would have been just about sufficient assets to buy annuities for all the pensions in payment and deferred annuities for all the non-pensioners covering the guaranteed accrued benefits (the "buy-out" basis).
- In terms of the coverage of early leaver transfer values the actuary has confirmed that had all members left as at the 2002 valuation date and transferred to another occupational arrangement (or in the case of current pensioners bought-out their pensions with an insurance company) then the assets in hand would have been more than sufficient to achieve this (the "closed-fund" basis).
- It is projected that the income into the scheme (by way of dividends, interest and contributions) will far exceed the outgo (by way of the payment of benefits and expenses) for the foreseeable future.
- On account of the long-term investment horizons and strong positive cash flow of the scheme, the investment policy is significantly orientated towards equities, as that is seen as the asset class which will deliver the best returns long-term.

Background

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

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

MFR has not worked well and in March 2001 the government confirmed that it would accept the proposals, put forward by Paul Myners, replacing it by a regime of scheme specific funding strategies combined with full member disclosure by way of a published funding statement. This will come into force for the first actuarial valuation with an effective date after September 2005, i.e. for the 2008 valuation.

Whilst that new regime has not yet become operative, and the regulatory requirements of the funding statement are still the subject of consultation, the trustee company of USS has continued the practice started two years ago and produced its own funding statement in advance of the full legislation.

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

- the general funding of the scheme,
- the investment strategy of the scheme, and
- the contribution strategy of the scheme

This information should help you better understand how the trustee company, with its advisers, is looking after your scheme and seeking to deliver your benefits over the long-term.

Benefits provided by the scheme

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

Active members may choose to opt out of the scheme and become a deferred pensioner. They then become entitled to a cash equivalent transfer value calculated on the advice of the actuary and designed to be equal to a sum of money which can reasonably be expected to be sufficient to provide the benefits given up in the scheme.

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

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

Assessing the required contributions

It is difficult to know what the true costs of the pension scheme will be in advance. These costs will depend on how well the investments perform, what salary increases members receive each year and on a whole host of other matters such as how long people live, how many people leave service early, or take early or incapacity retirement. When advising on the financial health of the scheme and contribution rates the actuary has to make assumptions about these sorts of things.

Member and employer contributions are invested in a trust fund, which is held separately from the assets of any of the institutions, and the contributions are managed by investment managers on behalf of the trustee company. Periodically valuations are carried out by the actuary to the scheme. Typically this is once every three years but valuations can be obtained more frequently by the trustee company. Quarterly and annual updates to the valuation are provided by the actuary on an approximate basis. If these raised particular concerns which required a more accurate assessment of the position then the trustee company would consider carrying out a full valuation. In the regular three yearly valuations the actuary checks that the assets built up and levels of contribution payable mean that the fund is still on course to pay the benefits expected under the arrangement.

If investments have performed poorly then there may be a need to increase contributions. If investments have performed better than expected then there may be scope for benefits to be improved or contributions to be reduced. Changes in members' ordinary contribution rates would require an amendment in the rules. Clearly if investments perform particularly poorly over a sustained period of time, it may become impossible for the institutions to pay the increased contributions necessary to make good the position. Of course, greatly improved investment performance in the future may rectify any underfunding.

It is particularly important in the context of pension schemes to appreciate the critical role of the sponsoring institutions. They are there to meet the "balance of cost" and can only do so whilst the scheme is affordable and, in particular, whilst the institution is solvent. Institutions cannot take money out of the fund but, theoretically, the payment of future contributions could cease if the employing institutions were to withdraw support of the pension promises or if the employing institution were to become "insolvent". What is always protected are the monies accumulated to date in the fund and in the event that support was withdrawn the trustee company would be charged with distributing the fund assets amongst the current beneficiaries. There are rules and regulations as to how the trustee company would distribute the fund in such circumstances but the important message is that were contributions to cease, the scheme could only provide the benefits it could afford from the assets it holds and there may not be enough to provide full benefits for all. Whilst there are no guarantees, therefore, attaching to the benefits provided in those circumstances, the actuary does report, in his valuations, on how well funded he thinks the scheme might be on a "termination" basis too. The position is now underpinned to a certain extent following the creation of the Pension Protection Fund (PPF). This fund enables the members of the terminated pension schemes of insolvent employers to receive a certain minimum level of benefits. USS will be required to pay a premium to the PPF to enable this coverage to be provided.

A broad assessment suggests that the scheme is currently likely to have sufficient assets to provide a higher level of benefits than would be provided by the PPF.

Funding position as at 31 March 2002

The last actuarial valuation of the scheme was carried out as at 31 March 2002. The actuary reported that the contributions required to meet each extra year's accrual of pension amounted to 20.6% of pensionable salary (6.35% of which is contributed by the members and the balance by the sponsoring institutions). This rate of contribution can be adjusted to reflect any surplus or deficit currently in the scheme. At the valuation date the actuary reported a surplus of £162 million. The assets in the fund amounted to £19,938 million and this covered 101% of the accumulated liabilities based on pensionable service to the valuation date and salaries projected through to retirement. It is this measure of coverage of assets against liabilities that the trustee company has adopted as the scheme long term funding target. The long-term funding and contribution strategy is aimed at delivering 100% coverage on this basis.

The new requirements for scheme funding (which will only impact on USS following the 2008 actuarial valuation) require an assessment of a scheme's "technical provisions" to be made. These are the amount of assets judged sufficient to provide accrued liabilities with the assessment being based on "prudent" assumptions. If there is a shortfall on this measure then additional contributions have to be paid to clear this shortfall. The basis for setting the assumptions for this purpose are not yet clear but will ultimately have to be agreed by the trustee company acting on the advice of the actuary.

In the meantime, leading up to the 2008 actuarial valuation, the MFR legislation will continue to apply to USS. On the statutory MFR basis required by the Pensions Act 1995 the funding level at 31 March 2002 was 144% and there was a surplus of £6,049 million.

Had all the liabilities accrued to date been "bought out" with an insurance company (by the purchase of deferred annuities for non-pensioners and annuities for pensioners) then the actuary has estimated that the assets would have been just about sufficient to achieve a full buy-out as at the valuation date. In this context it is worth noting that the insurance market would not, in practice, have the capacity to cover the entirety of USS's liabilities on a buy-out. Were support to the scheme to be withdrawn, therefore, the trustee company would not actually seek to buy-out the liabilities but would probably continue to run the scheme itself on a "closed fund" basis. At the valuation date the actuary estimated there would have been a surplus of assets of some £2,413 million on such a "closed fund" basis.

The actuarial assumptions

The ongoing funding level has been determined using a whole range of actuarial assumptions the key ones of which are:

- An investment return of 5% for determining past liabilities
- An investment return of 6% for determining the cost of future accruals
- Salary growth of 3.7%
- An inflation assumption of 2.7%
- Assets taken at market value

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

The trustee, while fully accepting this advice, is nevertheless mindful of the need to continually review the investment policies of the fund to provide assurance to members that all reasonable strategies are considered to protect their future security. The investment performance is monitored regularly by the trustee and is reported on, separately, in the accounts.

To help the trustee assess the sensitivities of the funding level to changes in the actuarial assumptions the actuary has further advised that if the investment return were increased by ½% to 5½% then the reported surplus would have increased from £162 million to about £2,000 million and the cost of accruals would have fallen from 20.6% to around 18.5%.

Whilst the future investment return cannot be guaranteed or predicted with certainty, a more mainstream actuarial assumption at March 2002 might have been that assets would out-perform gilt-edged returns by 1% or even 2% per annum, resulting in an assumed investment return of 6% or 7% rather than the 5% actually assumed in respect of past service. These assumptions would still contain an element of prudence.

A further feature of the 31 March 2002 valuation was that the demographic actuarial assumptions (relating to matters such as mortality rates, incapacity and early retirement rates, etc) were generally pitched on the conservative side compared with the actual past experience of the USS membership in these areas.

Allowance was made for generally improving mortality trends with the up-to-date mortality table, PA92 (projected forward to 2020 to allow future expected increased longevity), being used.

Analysis for the last six years experience shows that these tables remain appropriate.

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

Agreed contributions

Following the last actuarial valuation it was agreed to maintain the institutions' contribution rate of 14% of pensionable payroll representing a small subsidy (of 0.25% per annum) financed by the then surplus. The next formal actuarial valuation of the scheme is being carried out as at 31 March 2005.

The trustee company has reviewed the funding of the scheme, on an approximate basis, as at 31 March 2003 and 31 March 2004.

Reflecting the significant decline in asset values and the lowering of interest rates since 31 March 2002, the ongoing funding level was assessed at 70% as at 31 March 2003 and 79% a year later. The actuary expects the ongoing position, using unchanged actuarial bases, to have improved marginally over the year to 31 March 2005. The MFR was (and will be) met at all of these dates.

These updates show that assets are currently insufficient to cover past service liabilities, but as explained in the previous section, the assumptions made are prudent as no allowance is made for equity out-performance over fixed interest securities. This is relevant as the investments remain predominantly in UK and Overseas equities. The trustee is currently undertaking a full Asset Liability study and will then review investment strategy again. 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. Taking these factors into account it is reasonable to conclude that the funds held are likely to be sufficient to meet existing accrued liabilities.

A full actuarial valuation as at March 2005 is currently being carried out, the results of which are due to be reported later this year. At that time the full methodology and assumptions will be reviewed again, in detail, and the investment strategy reconsidered. 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.

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 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, up to five may 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 and decisions on whether to participate in new investment activities. 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, 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 wish of the employers and the management committee to minimise 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 specialist 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 managers are remunerated through 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

The management committee believes that over the longer term equity investment will provide superior returns to other investment classes. The management structure and targets set are designed to give the USS fund a greater than average weighting in equities compared to the weighting generally held by other funds through portfolios that are diversified both geographically and by sector.

The management committee has determined the appropriate asset distribution, and permitted deviations, for the fund as:

	%	Divergence limits
UK equities	40	-10% to + 10%
Overseas equities	40	-10% to + 10%
Fixed interest	10	-5% to + 2.5%
Property	10	-5% to + 2.5%

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%

External specialist managers have been appointed to manage, or advise on the management of, approximately 45% of the fund:

UK equities (active)	5%
UK equities (index/enhanced index)	15%
Global equities	20%
Non-government bonds	5%

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 and sector allocation. 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 return of the Investment Property Databank (IPD) universe by 0.5% pa over rolling five-year periods.

The securities assets of the fund are therefore allocated between the managers in an approximate ratio of:

	%
Internally managed balanced fund	55
Index tracking/enhanced index tracking funds	15
Externally managed specialist funds	30

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

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. If 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.

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 managers to ensure that an adequate spread of investments is maintained and reports on this to the investment committee.

The external managers may not, as a rule, invest in securities not quoted on a recognised or designated investment exchange. Investment in private equity and other unquoted securities or funds by the internally managed fund is allowed up to a maximum of 2.5% of the total fund. Any such investments are reported to the following 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 HSBC 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 HSBC by USS Ltd 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 provides, as a minimum, the information required by 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 interests of the scheme.

Level of scheme maturity

Although 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.

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 investment

As an institutional investor that takes seriously its fiduciary obligations to its 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 manner which is consistent with the trustee company's investment objectives and legal duties.

The management committee has instructed its internal fund managers 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 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. In connection with transitional arrangements for a reorganisation of the fund's management, the management committee may approve a higher percentage for that limit, which will then apply in that connection for such period as that committee shall have specified. 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.

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

UNIVERSITY INSTITUTIONS

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
0100	Aberdeen	1,563	580	142
4100	Aston	563	348	113
4300	Bath	1,202	360	68
6600	Belfast	1,901	602	141
1000	Birmingham	2,531	1,048	224
4200	Bradford	841	463	97
1100	Bristol	2,512	753	148
4400	Brunel	730	310	63
7035	Buckingham	79	42	5
1200	Cambridge (University)	4,602	980	304
1202	Christ's	16	7	2
1204	Churchill	43	9	–
1206	Clare	16	5	–
1208	Clare Hall	7	–	1
1210	Corpus Christi	30	6	2
1212	Darwin	5	2	1
1214	Downing	35	10	3
1216	Emmanuel	20	4	1
1218	Fitzwilliam	31	5	2
1220	Girton	47	13	3
1222	Gonville & Caius	35	11	3
1224	Hughes Hall	2	2	1
1226	Jesus	18	5	3
1228	King's	19	11	2
1230	Lucy Cavendish	28	6	–
1232	Magdalene	17	6	2
1234	New Hall	43	8	2
1236	Newnham	45	19	3
1238	Pembroke	37	5	2

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

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
1240	Peterhouse	18	2	1
1242	Queens'	13	2	1
1245	Robinson	16	6	–
1246	St Catharine's	31	5	–
1255	St Edmund's	4	1	–
1250	St John's	42	9	4
1252	Selwyn	17	1	2
1254	Sidney Sussex	21	1	1
1258	Trinity	53	11	6
1260	Trinity Hall	22	6	2
1268	Wolfson	10	2	–
4700	City	1,166	358	97
7016	Cranfield	954	465	96
0700	Dundee	1,617	371	81
1300	Durham (University)	1,517	477	80
1301	St Chad's	3	–	–
1302	St John's	3	–	–
1303	Ushaw College	3	1	–
1500	East Anglia	1,240	390	61
0200	Edinburgh	3,474	987	254
1700	Essex	950	200	48
1600	Exeter	1,257	470	94
0300	Glasgow	2,635	849	180
0800	Heriot-Watt	806	265	46
1800	Hull	1,012	472	113
3100	Keele	851	257	53
1900	Kent	976	358	49
2100	Lancaster	1,248	364	75
2000	Leeds	3,179	1,058	247

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	1,436	387	80
2300	Liverpool	2,035	737	183
2497	London (University)	527	619	185
2408	Birkbeck	700	155	30
2401	Goldsmiths' College	566	141	11
2480	Heythrop	18	4	–
2409	Imperial Coll of Science, Technology & Medicine	3,065	965	244
2440	Institute of Cancer Research	207	20	3
2403	Institute of Education	431	200	46
2410	King's College London	2,611	935	218
2412	London School of Economics & Political Science	940	224	53
2434	London School of Hygiene & Tropical Medicine	476	99	33
2413	Queen Mary & Westfield College	1,338	551	127
2447	Royal Holloway and Bedford New College	695	258	46
2436	Royal Veterinary College	232	58	20
2428	St George's Hospital Medical School	483	72	20
2415	School of Oriental & African Studies	461	185	49
2416	School of Pharmacy	121	29	11
2417	University College	4,242	1,010	210
2484	London Business School	270	40	9
4600	Loughborough	1,346	465	115
2500	Manchester	4,487	1,662	344
1400	Newcastle-upon-Tyne	2,169	774	171
2600	Nottingham	2,735	684	162
8900	Open	5,481	1,501	193
2700	Oxford (University)	3,939	1,104	346
2701	All Souls	32	13	3
2702	Balliol	31	4	4
2703	Brasenose	19	6	4

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
2704	Christ Church	46	10	6
2705	Corpus Christi	15	6	3
2706	Exeter	23	5	4
2735	Harris Manchester	10	3	–
2707	Hertford	24	4	2
2708	Jesus	32	6	–
2709	Keble	29	6	–
2710	Lady Margaret Hall	27	11	3
2734	Linacre	7	3	–
2711	Lincoln	20	6	3
2712	Magdalen	37	9	5
2732	Mansfield	27	5	1
2713	Merton	34	8	3
2714	New College	37	15	5
2715	Nuffield	44	9	2
2716	Oriel	20	12	–
2717	Pembroke	20	5	4
2718	Queen's	21	8	2
2736	Regent's Park	2	–	–
2719	St Anne's	27	10	1
2720	St Antony's	25	10	1
2721	St Catherine's	36	10	2
2722	St Edmund Hall	8	3	1
2723	St Hilda's	33	14	1
2724	St Hugh's	27	9	1
2725	St John's	51	7	1
2726	St Peter's	22	4	2
2727	Somerville	30	9	–
7028	Templeton	26	19	1

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

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
2728	Trinity	12	3	1
2729	University	33	9	3
2730	Wadham	16	6	7
2733	Wolfson	10	6	4
2731	Worcester	16	10	1
2800	Reading	1,610	554	139
0400	St Andrews	908	266	59
4800	Salford	1,054	521	99
2900	Sheffield	2,816	782	158
3000	Southampton	2,738	673	127
0500	Stirling	785	249	46
0600	Strathclyde	1,755	591	166
4000	Surrey	1,392	443	77
3200	Sussex	1,050	437	85
6800	Ulster	1,630	448	95
3900	Wales (University)	64	24	4
3300	Aberystwyth	634	297	80
3400	Bangor	788	340	80
3500	College of Cardiff	2,558	751	197
3800	Lampeter	111	52	14
3600	Swansea	1,067	399	99
5000	Warwick	1,794	402	79
5200	York	1,487	294	64
	Old university institutions total	**106,337**	**33,693**	**7,587**
	New universities admitted for limited membership only			
8160	Abertay	5	–	–
8100	Bournemouth	3	2	–
8080	Brighton	34	–	–
8350	Central England in Birmingham	10	–	–

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
8150	Central Lancashire	13	1	–
8110	Coventry	38	–	–
8060	De Montfort	10	4	–
8010	Glamorgan	15	–	–
8210	Greenwich	4	–	–
8040	Hertfordshire	2	–	–
8050	Huddersfield	10	–	–
8170	Kingston	4	–	–
8190	Lincoln	21	–	–
8300	Liverpool Hope University College	4	–	–
8270	Liverpool John Moores	10	–	–
8240	London Metropolitan	19	–	–
8280	Luton	1	–	–
8140	Manchester Metropolitan	23	–	–
8090	Nottingham Trent	12	4	–
8120	Oxford Brookes	16	–	–
8250	Paisley	2	1	–
8070	Plymouth	28	2	–
8290	Queen Margaret University College	3	–	–
8370	Roehampton	1	1	–
8220	Sheffield Hallam	9	–	–
8020	South Bank	33	4	–
8320	Sunderland	12	–	–
8340	Swansea Institute of Higher Education	8	–	–
8330	Teeside	2	–	–
8030	Thames Valley	4	3	–
8380	University College Falmouth	–	–	–
8360	University College Worcester	1	–	–
8180	University of Wales Institute, Cardiff	3	–	–
8130	Westminster	17	–	–
	New university institutions total	**377**	**22**	**–**
	All university institutions total	**106,714**	**33,715**	**7,587**

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

NON-UNIVERSITY INSTITUTIONS

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
7224	AGCAS	11	–	–
7221	Al-Maktoum Institute	3	–	–
7252	Amaethon Ltd	1	–	–
7010	Animal Health Trust	50	8	1
7080	Arable Group	6	4	1
7040	Arthritis Research Campaign	1	2	–
7211	Arts and Humanities Research Board	1	–	–
7190	Ashridge (Bonar Law Memorial) Trust	154	2	–
7178	Assessment and Qualifications Alliance	25	36	8
7011	Association of Commonwealth Universities	33	32	8
7244	Association of University Teachers	70	14	4
7255	Aston Academy of Life Sciences	2	–	–
7108	Aston Techn Planning & Management Services Ltd	–	–	1
7067	Beatson Institute for Cancer Research	62	3	2
7084	BLCMP (Library Services) Ltd	1	5	–
7037	Brewing Research International	37	14	5
7206	Bristol Zoo Gardens	1	–	–
7012	British Glass Manufacturers' Confederation	–	8	–
7030	British Institute in Eastern Africa	4	1	–
7091	British Institute of Archaeology at Ankara	1	2	–
7112	British Institute of International & Comp Law	4	1	–
7097	British Psychological Society	2	2	–
7087	British School at Athens	7	2	1
7092	British School at Rome	2	–	–
7033	British School of Archaeology in Iraq	1	–	–
7050	British Universities Sports Association	1	–	–
7133	Brunel Institute of Organisation & Social Studies	–	3	–
7122	Burden Neurological Institute	6	–	–
7116	Cambridge Crystallographic Data Centre	40	4	–

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

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	PENSIONERS Spouses, Dependants and Dependent Children
7060	Cancer Research UK	2	11	1
7153	CASE (Europe)	2	1	–
7197	Centre for Migration Studies	1	–	–
7015	College of Estate Management	26	27	8
7191	Connect - The Communications Disability Network	17	–	–
7110	Council for British Research in the Levant	3	–	–
7265	Council for Christ Col and Universities	1	–	–
7216	Courtauld Institute of Art	49	2	3
7188	Cranfield Aerospace Limited	18	5	–
7251	Cranfield Impact Centre Ltd	–	–	–
7219	Cranfield Innovative Manufacturing Ltd	9	–	–
7098	Culham Institute	1	–	–
7145	Dartington Hall Trust	8	1	–
7217	Duke Corporate Education Ltd	4	–	–
7253	East Malling Research	95	–	–
7241	Economic Research Institute of Northern Ireland Ltd	–	–	–
7159	Edexcel Foundation	20	29	–
7164	Edinburgh Business School	19	3	–
7032	Edinburgh University Students' Association	64	18	2
7182	EDUSERV	48	2	–
7266	EDUSERV Technologies Ltd	–	–	–
7229	Energy Consortium (Education)	2	–	–
7139	Engineering Development Trust	21	8	–
7257	ESCP-EAP European School of Management	–	–	–
7212	EUSPEN Ltd	3	–	–
7089	Ewing Foundation	3	2	–
7239	Facial Surgery Research Foundation	2	–	–
7214	Forum for European Philosophy	–	–	–
7175	Freshwater Biological Association	4	1	–

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

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	PENSIONERS Spouses, Dependants and Dependent Children
7041	Geographical Association	6	3	–
7246	Graduate Prospects	–	–	–
7152	Gray Laboratory	26	4	–
7025	Henley Management College	224	41	5
7237	Henley Management College (Trading) Ltd	1	–	–
7230	Heriot-Watt University Students Association	3	–	–
7258	Higher Education Academy	67	–	–
7157	Higher Education Careers Service Unit	3	6	–
7176	HEFCE	1	–	–
7186	Higher Education South East	4	–	–
7135	Higher Education Statistics Agency Ltd	19	2	2
7053	History of Parliament Trust	27	5	–
7143	Homerton College	18	4	1
7254	Horticultural Research International Ltd	213	–	–
7170	Hull University Union	3	2	–
7259	INNOS Ltd	10	–	–
7236	Institute for Criminal Policy Research	14	–	–
7029	Institute for Employment Studies	6	10	–
7079	Institute of Community Studies	7	7	–
7017	Institute of Development Studies	104	36	6
7056	Institute of Food Science & Technology	2	–	–
7231	Interactive University	3	–	–
7207	International Extension College	5	–	–
7124	International Institute of Biotechnology	1	–	–
7200	International Research Foundation for Open Learning	3	–	–
7132	International Society (Manchester)	2	1	–
7149	International Students House	3	–	–
7147	JNT Association	33	9	1
7054	Joint Library of Hellenic & Roman Societies	–	1	–

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

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
7066	Journal of Endocrinology Ltd	–	1	–
7189	Kelvin Nanotechnology Ltd	2	–	–
7226	Kidscan Ltd	2	–	–
7240	Leadership Foundation for Higher Education	7	1	–
7177	Learning from Experience Trust	2	–	–
7208	LeNSE Ltd	1	–	–
2482	Lister Institute of Preventive Medicine	–	5	3
7247	Liverpool Associates in Tropical Health	–	–	–
7168	London Mathematical Society	2	–	–
7179	London School of Jewish Studies	2	1	–
7235	London Universities Purchasing Consortium	4	–	–
7117	Ludwig Inst for Cancer Research - Middlesex Branch	20	1	–
7039	Ludwig Inst for Cancer Research - St Mary's Branch	7	4	–
7215	Manchester Medical Society	2	–	–
7090	Marie Curie Cancer Care	45	3	4
7125	Marine Biological Association of the United Kingdom	36	–	–
7094	MIRA Ltd	37	51	7
7096	Modern Humanities Research Association	6	1	–
7222	National Centre for Business and Sustainability	2	–	–
7018	National Inst of Economic & Social Research	23	9	3
7268	myscience.co Ltd	6	–	–
7205	North East Wales Institute	5	–	–
7073	Northern College	29	7	2
7270	Northern Consortium	–	–	–
7269	Northern Consortium UK Ltd	1	–	–
7146	Northern Ireland Council for Postgraduate Medical & Dental Education	4	2	–
7115	Northern Ireland Economic Research Centre	9	1	4
7048	Numerical Algorithms Group Ltd	33	10	2
7155	Nuffield Trust	12	2	–

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

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
7183	NYU in London	5	–	–
7242	The Office for the Independent Adjudicator for Higher Education	7	–	–
7209	Open College Network Anglia	5	–	–
7260	Open University Children's Centre	–	–	–
7261	Open University Student's Association	2	2	–
7058	Open University Worldwide	16	10	–
7023	Overseas Development Institute	45	9	–
7174	Oxford Cambridge & RSA Examinations	171	12	2
7031	Oxford Centre for Hebrew & Jewish Studies	9	2	–
7118	Oxford Centre for Islamic Studies	8	1	–
7163	Oxford Policy Institute	1	–	–
7104	Pain Relief Foundation	1	–	–
7243	Picker Institute Europe	1	–	–
7075	Policy Studies Institute	38	14	3
7162	Quality Assurance Agency	48	12	3
7264	Queen Victoria Blond McIndoe Research Foundation	5	–	–
7234	Rambert School of Ballet and Contemporary Dance	5	–	–
7052	Reading University Students Union	–	1	–
7203	Regional Studies Association	3	–	–
7156	Regulatory Policy Institute	–	–	–
7238	Rhodes Trust	5	–	–
7123	Richmond College	43	7	–
7185	Royal Academy of Dance	1	–	–
7160	Royal Academy of Music	2	–	–
7218	Royal Agricultural College	1	–	–
7181	Royal College of Music	–	–	–
7081	Royal College of Paediatrics and Child Health	4	1	–
7020	Royal College of Surgeons of England	123	31	9
7021	Royal Geographical Society	3	3	1

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

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
7082	Royal Institute of International Affairs	2	–	–
7077	Royal Institution	14	5	1
7158	Royal Northern College of Music	3	–	–
7064	Royal Society	–	–	–
7070	Royal Society of Edinburgh	2	2	–
7022	Ruskin College	46	18	6
7245	Sams Ardtoe	13	–	–
7105	School Mathematics Project	2	3	–
7130	Scottish Association for Marine Science	68	3	1
7232	Scottish Further Education	1	–	–
7262	Shared Care Network	13	–	–
7196	Sheffield University Enterprises Ltd	8	–	–
7199	Smith Institute	5	–	–
7169	Society of Antiquaries of London	8	1	–
7131	Southern Universities Management Services	13	3	–
7180	Standing Conference of Principals Ltd	4	–	–
7220	Stockholm Environment Institute	5	–	–
7042	Strangeways Research Laboratory	11	10	2
7187	Technology Innovation Centre	2	–	–
7134	The Prince's Foundation	1	2	–
7138	Thrombosis Research Institute	13	2	–
7109	Trade Union Research Unit Ltd	–	1	–
7173	Trinity College of Music	41	2	–
7263	UC (Suffolk) Ltd	–	–	–
7204	UHI Millenium Institute	7	–	–
7250	UK Biobank Ltd	9	–	–
7210	UKCOSA	16	–	–
7166	UMIST Ventures Ltd	6	–	–
7106	Universities and Colleges Admissions Service	18	16	4

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
7150	Universities and Colleges Employers Association	12	1	–
7121	Universities UK	50	9	1
7194	University College Northampton	3	–	–
7192	University College Winchester	6	–	–
7184	University Council for the Education of Teachers	3	1	–
7198	University of Cambridge Challenge Fund	2	–	–
7171	University of the Arts London	6	–	–
7049	University of Leicester Student's Union	1	3	1
7256	University of Sheffield Union of Students	3	–	–
7202	University of Wales, Newport	2	–	–
9999	USS Ltd	137	27	11
7227	Warren House Group at Dartington	11	–	–
7065	Wildfowl & Wetlands Trust	1	7	2
7148	Witan International College	14	3	1
7142	WP Management Ltd	3	–	–
7233	Xceleron Ltd	1	–	–
7027	York Archaeological Trust	3	2	–
7223	York Health Economics Consortium Ltd	7	–	–
7195	Yorkshire Universities	5	–	–
7076	Zoological Society of London	44	11	–
–	Withdrawn institutions	–	59	10
	Non-university institutions total	**3,252**	**779**	**143**
	All institutions total	**109,966***	**34,494**	**7,730**

*Included in this figure (but counted once only) are 2,281 members who have more than one appointment.

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

SUMMARY OF MOVEMENTS during the year ended 31 March 2005

Members		University Institutions	Non-University Institutions	Totals
Total members at 1 April 2004		100,374	2,680	103,054
New members		18,563	1,071	19,634
Retirements	- Ill-health	120	4	124
	- Other	1,739	67	1,806
Deaths		130	2	132
Leavers and withdrawals	- Refunds	1,626	50	1,676
	- Deferred/undecided	8,216	220	8,436
	- Retrospective*	542	6	548
Total members at 31 March 2005		106,564	3,402	109,966

*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 4,830 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 2004	31,308	665	31,973
Mergers	755	24	779
New pensioners	2,330	100	2,430
Deaths	678	10	688
Total pensioners at 31 March 2005	33,715	779	34,494

In addition at 31 March 2005, there were 6,870 pensions being paid to spouses and dependants and 860 annuities being paid to dependent children. Deferred pensioners not yet receiving a pension totalled 62,700.

Ex-spouse participants

At 31 March 2005 159 ex-spouse participants have benefits within the scheme in their own right as a result of pension sharing, of whom nine are now in receipt of their pension and are included in the pensioner member summary above.

FUND ACCOUNT for the year ended 31 March 2005

	Note	2005 £m	2004 £m
Contributions and Benefits			
Contributions receivable	3	783.7	697.9
Premature retirement scheme receipts		32.2	36.3
Transfers in	4	230.1	109.8
		1,046.0	844.0
Benefits payable	5	742.1	683.2
Payments on account of leavers	6	57.9	45.2
Administration costs	7	9.1	9.3
		809.1	737.7
Net additions from dealings with members		236.9	106.3
Returns on investments			
Investment income	8	587.6	557.0
Change in market value of investments	9	1,485.0	3,215.5
Investment management expenses	10	(15.9)	(14.7)
Net returns on investments		2,056.7	3,757.8
Net increase in the fund during the year		2,293.6	3,864.1
Fund at start of year		19,446.1	15,582.0
Fund at end of year		21,739.7	19,446.1

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

STATEMENT OF NET ASSETS as at 31 March 2005

	Note	2005 £m	2004 £m (restated)
Investments			
Securities	12	19,036.6	16,875.4
Pooled investment vehicles securities	13	461.4	468.3
Pooled investment vehicles property	13	97.7	71.1
Property	14	1,701.9	1,553.5
Life assurance policies	15	–	3.7
Cash deposits		280.6	350.0
Other investment balances	16	105.1	88.0
		21,683.3	19,410.0
Net current assets	17	56.4	36.1
Total net assets, representing the fund balance		21,739.7	19,446.1

The financial statements on pages 59 to 67 were approved by the trustee, Universities Superannuation Scheme Limited, on 28 July 2005 and were signed on its behalf by:

G J Davies
Chairman

T H Merchant
Chief Executive

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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005

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 additional voluntary contributions have not been disclosed in the fund account and the net assets statement on the grounds that the amounts involved are not material. However, details of AVC transactions are included in note 3 to the financial statements.

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

The prior year net assets have been reclassified to show dividends receivable and accrued interest on fixed income securities as other investments rather than current assets as this is considered to be a more appropriate presentation. This change has no affect on the overall net assets of the scheme either in the current or preceding year.

2. Accounting Policies

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

Contributions & Benefits

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

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

Investment income

Investment income is brought into account on the following bases:

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

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

(c) Property rental income, as it accrues;

(d) Interest on advances for property developments, which is treated as investment income in the fund account and forms part of the cost of the relevant development, as it accrues until the earlier of the development becoming a completed property or the contracted purchase price being reached.

Property

A completed property is one that has received an architect's certificate of practical completion and which is 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
Proceeds of policies held with Equitable Life are not treated as income 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 as part of the change in market value of investments.

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

Investments
Investments are included in the statement of net assets at current value at the year end.

The current values are as follows:

(a) Quoted Securities – at closing prices; these prices may be last trade prices or mid market prices depending on the convention of the stock exchange on which they are quoted;

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

(c) 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

	2005 £m	2004 £m
Main section		
Employers' contributions	518.1	463.4
Members' basic contributions	222.8	198.4
Members' additional voluntary contributions	29.9	24.5
	770.8	686.3
Supplementary section		
Members' contributions	12.9	11.6
	783.7	697.9

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:

	2005 £m	2004 £m
Value at the start of the year	153.4	135.5
Contributions from members	19.9	19.2
Transfers in	1.9	0.7
Income from interest and bonuses	8.7	5.0
Payouts to members	(8.7)	(7.0)
Value at the end of the year	175.2	153.4

4. Transfers in

	2005 £m	2004 £m
Individual transfers in	105.8	105.4
Group transfers in	124.3	4.4
	230.1	109.8

5. Benefits payable

	2005 £m	2004 £m
Main section		
Pensions	607.3	554.8
Lump sums on or after retirement	114.8	108.1
Lump sums on death in service	11.1	10.8
	733.2	673.7
Supplementary section		
Pensions	7.9	7.4
Lump sums on or after retirement	0.7	1.6
Lump sums on death in service	0.3	0.5
	8.9	9.5
	742.1	683.2

6. Payments on account of leavers

	2005 £m	2004 £m
Individual transfers to other schemes	54.6	41.8
Payments for members joining state scheme	1.5	1.5
Refunds to members leaving service	1.8	1.9
	57.9	45.2

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

	2005 £m	2004 £m
Dividends from UK equities	258.1	290.2
Net property income	78.7	82.1
Income from pooled investment vehicles	2.9	4.1
Dividends from overseas equities	160.9	95.9
Income from UK fixed interest securities	55.7	21.2
Income from overseas fixed interest securities	17.1	32.1
Income from index-linked securities	–	14.3
Interest on cash deposits	10.2	14.7
Other income	4.0	2.4
	587.6	557.0

9. Change in market value of investments

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

	Market value 2004 £m	Purchases during the year at cost £m	Proceeds of sales during the year £m	Changes in value during the year £m	Market value 2005 £m
Securities	16,875.4	9,451.5	(8,589.1)	1,298.8	19,036.6
Pooled investment vehicles - securities	468.3	108.3	(166.0)	50.8	461.4
Pooled investment vehicles - property	71.1	20.6	–	6.0	97.7
Property	1,553.5	89.0	(80.1)	139.5	1,701.9
Life assurance policies	3.7	–	(3.8)	0.1	–
Cash deposits	350.0	–	(59.2)	(10.2)	280.6
	19,322.0	9,669.4	(8,898.2)	1,485.0	21,578.2
Other investment balances	88.0				105.1
Total	19,410.0				21,683.3

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

10. Investment management expenses

Investment management expenses comprise all costs directly attributable to the scheme's investment activities, including the operating costs of the London Investment Office and the costs of management and agency services rendered by third parties. Details are given in the financial statements of the trustee company (Universities Superannuation Scheme Limited: Registered No. 1167127).

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

	2005 £m	2004 £m
Quoted		
UK equities	8,226.2	7,360.8
Overseas equities	9,103.4	7,842.7
UK fixed interest - public sector quoted	222.4	188.7
UK fixed interest - other	924.8	866.3
Overseas fixed interest - public sector quoted	459.9	557.3
Overseas fixed interest - other	99.9	55.6
Index-linked	–	4.0
	19,036.6	16,875.4

13. Pooled investment vehicles

	2005 £m	2004 £m
Securities		
Managed funds	252.8	229.7
Unit trusts	208.6	238.6
	461.4	468.3
Property		
Unit trusts	32.7	25.0
Property companies	2.2	–
Limited partnerships	62.8	46.1
	97.7	71.1
	559.1	539.4

14. Property

	2005 £m	2004 £m
UK completed properties	1,577.9	1,433.1
UK developments in progress	124.0	120.4
	1,701.9	1,553.5
Properties analysed by type:		
Freehold	1,600.3	1,454.3
Leasehold	101.6	99.2
	1,701.9	1,553.5

The completed properties and developments in progress were valued independently by Colliers Conrad Ritblat Erdman, chartered surveyors, as at 31 March 2005 and 31 March 2004.

15. Life assurance policies

At 31 March 2004 the scheme held a small number of policies with the Equitable Life Assurance Society which were assigned to it in respect of former FSSU members. These were all repaid during the year as shown in note 9.

16. Other investment balances

	2005 £m	2004 £m (restated)
Amount due to stockbrokers	(79.2)	(88.9)
Amount due from stockbrokers	68.4	58.3
Dividends and accrued interest	115.9	118.6
	105.1	88.0

17. Net current assets

	2005 £m	2004 £m (restated)
Current assets		
Contributions due from institutions:		
- employers' contributions	53.4	52.7
- members' basic contributions	19.2	17.3
- members' additional voluntary contributions	2.0	1.8
Other debtors	23.4	5.1
Cash at bank and in hand	20.4	10.9
	118.4	87.8
Current liabilities		
Rents & service charges received in advance	16.7	12.3
Property revenue expenses payable	0.9	0.9
Amount due on property purchases	1.5	18.1
Benefits payable	37.0	15.0
Taxation creditor	1.6	0.1
Other creditors	0.9	3.4
Due to USS Ltd	3.4	1.9
	62.0	51.7
	56.4	36.1

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

Benefits payable include an estimate of £22m (2004: £nil) in respect of certain benefits for early leavers which have been underpaid. These had been calculated based on the scheme's normal retirement age but, following a ruling by the High Court, it has now been established that they should have been calculated based on each individual's contracted retirement age. At this stage it is not possible to calculate what the final liability will be. The amount provided is management's best estimate based on the limited information currently available.

UNIVERSITIES SUPERANNUATION SCHEME
USS ACCOUNTS

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, equities, government bonds and letters of credit.

	2005 £m	2004 £m
Value of stock on loan at 31 March	271.0	829.9
Value of collateral held at 31 March	285.1	881.7

19. Financial commitments

	2005 £m	2004 £m
Property		
Contracts placed but not provided for	77.0	143.5
Securities		
Forward commitments for unpaid calls on securities and underwriting contracts	4.1	15.7

20. Self investment

The scheme had no employer related investments during the year.

21. Related party transactions

The only related party transactions are between the scheme and its trustee company and certain employees of the trustee company through their membership of the Scheme. The trustee company provides administration services, the cost of which includes directors' emoluments as detailed in note 5 of the trustee company accounts, and investment management services to the scheme, charging £9.1 million and £15.9 million respectively, with a balance due from the scheme of £3.4 million as at 31 March 2005.

STATEMENT OF TRUSTEE'S RESPONSIBILITIES in respect of the financial statements

The audited 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 for making available each year, commonly in the form of a trustee's annual report, information abut the scheme prescribed by pensions legislation, which it should ensure is consistent with the financial statements it accompanies.

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

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

Signed on behalf of the trustee on 28 July 2005

G J Davies
Chairman

T H Merchant
Chief Executive

STATEMENT OF TRUSTEE'S RESPONSIBILITIES in respect of contributions

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

Trustee's summary of contributions payable under the schedule in respect of the scheme year ended 31 March 2005

This summary of contributions has been prepared by and is the responsibility of the trustee. It sets out the employer and member contributions payable to the scheme under the schedule of contributions certified by the actuary on 20 May 2003 in respect of the year ended 31 March 2005. The scheme auditor reports on contributions payable under the schedule in their auditors' statement about contributions.

Contributions payable under the schedule in respect of the scheme year

	£m
Employer	
Normal contributions	517.8
Special contributions	0.3
Additional contributions (premature retirement receipts)	32.2
Member	
Normal contributions	234.3
Additional contributions	1.4
Contributions payable under the schedule (as reported to the scheme auditor)	786.0

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

	£m
Contributions payable under the schedule	786.0
Contributions payable in addition to those payable under the schedule (and not reported on by the scheme auditor): Member additional voluntary contributions (excluding those paid to the Prudential)	29.9
Total contributions (including premature retirement scheme receipts) reported in the financial statements	815.9

In addition to the total contributions reported in the financial statements, there were £19.9m additional voluntary contributions paid by members to the Prudential. Details are included in note 3 to the financial statements.

Signed on behalf of the trustee on 28 July 2005

G J Davies
Chairman

T H Merchant
Chief Executive

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

We have audited the accounts on pages 59 to 67.

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

Respective responsibilities of trustee and auditors

The trustee's responsibilities for obtaining an annual report, including audited accounts prepared in accordance with applicable United Kingdom law and accounting standards, are set out in the statement of trustee's responsibilities on page 68.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board.

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

We read the management committee report and other information contained in the annual report and consider whether it is consistent with the accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

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 accounts. It also includes an assessment of the significant estimates and judgements made by or on behalf of the trustees in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts show a true and fair view of the financial transactions of the scheme during the scheme year ended 31 March 2005 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the scheme year) and contain the information specified in Regulation 3 of and the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

KPMG LLP
Chartered Accountants
Registered Auditor
Manchester

28 July 2005

INDEPENDENT AUDITORS' STATEMENT ABOUT CONTRIBUTIONS

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

We have examined the summary of contributions payable under the schedule of contributions to the Universities Superannuation Scheme in respect of the scheme year ended 31 March 2005 which is set out on page 69.

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

Respective responsibilities of trustee and auditors

As described on page 69, the scheme's trustee is responsible, under the Pensions Act 1995, for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions which sets out the rates and due dates of certain contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme. The trustee has a general responsibility for procuring that contributions are made to the scheme in accordance with the schedule of contributions.

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

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

Basis of statement about contributions

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

Statement about contributions payable under the schedule

In our opinion contributions for the scheme year ended 31 March 2005 as reported in the summary of contributions and payable under the schedule have been paid in accordance with the schedule of contributions certified by the actuary on 20 May 2003.

KPMG LLP
Chartered Accountants
Manchester

28 July 2005

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

	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Contributions and benefits					
Contributions	784	698	661	611	565
PRS receipts	32	36	40	38	35
Transfers in	230	110	115	106	92
	1,046	844	816	755	692
Benefits payable					
Pensions	615	562	524	488	446
Lump sums	127	122	121	122	91
Transfers out	56	43	41	54	27
Refunds	2	2	2	2	1
	800	729	688	666	565
Investment income (net of investment management costs)	572	542	541	463	507
Administration costs of the trustee (excluding investment management costs)	9.1	9.3	7.6	5.8	6.3
Changes in value of investments	1,485	3,215	(5,036)	(629)	(2,562)
Investments of the fund (restated) (at current values) at 31 March					
Securities	19,037	16,876	12,914	16,890	17,452
Pooled investment vehicles	559	539	477	566	–
Property	1,702	1,553	1,650	1,667	1,592
Life assurance policies	–	4	15	183	212
Cash deposits	281	350	396	486	644
Other investment balances	105	88	86	99	97
	21,684	19,410	15,538	19,891	19,997

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

Membership numbers at 31 March	2005	2004	2003	2002	2001
Contributing members	110,000	103,100	98,400	95,700	91,300
Pensioners	42,200	39,200	37,000	35,100	33,100
Deferred pensioners	62,700	56,700	51,400	49,500	45,400
	214,900	199,000	186,800	180,300	169,800

REPORT OF THE DIRECTORS for the year ended 31 March 2005

The directors submit their report and the accounts for the year ended 31 March 2005.

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 £25,061,000 this amount being recoverable from USS. This compares with £24,011,000 for the year ended 31 March 2004 and represents a 2% decrease in administration costs and an 8% increase in investment management costs.

As was reported last year, a number of administrative costs incurred in the year to 31 March 2004 were non-recurring and this has contributed to the decrease in administration costs this year. There was a change in the investment management structure from 1 April 2004 with the external balanced managers being replaced by specialist managers. The performance-related fees agreed with the specialist managers will potentially lead to an increase in investment management fees. However, performance in the first 12 months was disappointing and, as a result, fees payable for securities management are actually lower than the previous year. The main reason for the increase in costs is that last year, as in previous years, the costs reflected the rebates paid by two of the balanced managers in respect of the management fees and other charges incurred by them on investment in their own in-house funds. The managers in place this year have not incurred such fees and no rebates have been paid.

The level of service provided to institutions has continued throughout the year at a level which the directors believe is satisfactory. By the end of the year, the turnaround time for work in progress in the key processes had been reduced from the previous year's ten working days to five working days.

The Universal Pensions Management system (UPM1), the scheme's pensions administration software, was implemented in 2000 and has been instrumental in enabling the organisation to increase its efficiency. The suppliers of the software have issued a replacement version (UPM2) and have ceased further development of UPM1 other than for legislative and other essential amendments. The officers have therefore been carrying out a review during the year of the potential systems to replace UPM1 with a view to commencing this exercise during 2005/06.

Following a review of the policy of extending the scheme to include both academic staff from post-92 universities and the non-academic staff of all UK universities, three mergers were completed, or largely completed, during the year. There was a considerable impact on internal resources but a great deal was learned which has resulted in further refinements being made to the policy. The administrative costs of these initial mergers have been absorbed by the scheme and are included in the operating costs.

Fixed assets

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

Directors

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

Professor Sir Graeme Davies, *chairman*
C D Donald, *deputy chairman* (to 30.6.04)
A S Bell
Professor John Bull
Michael Butcher (from 1.11.04)
Professor Sir Martin Harris, *deputy chairman from 1.7.04*
Howard Jacobs
Lady Merrison
Sir Howard Newby
Michael S Potts
Professor Charles Sutcliffe
J W D Trythall
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

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

By order of the board

J P Williams
Secretary

28 July 2005

STATEMENT OF OPERATING COSTS for the year ended 31 March 2005

	Note	2005 £000	2004 £000
Personnel costs			
Employees' emoluments	4	7,375	7,296
Directors' emoluments and expenses	5	438	451
Recruitment, training and welfare		310	370
		8,123	8,117
Premises costs			
Rent, rates, service charges and utilities		1,557	1,355
Depreciation and maintenance		277	260
		1,834	1,615
Investment costs			
Securities management		6,135	6,440
Property management		1,690	1,968
Custodial services		1,376	1,496
Legal costs – property management		331	410
– securities management		31	47
Property valuation		134	154
Investment performance measurement		77	92
Costs met by third parties	7	(77)	(19)
		9,697	10,588
Securities management rebates	6	–	(2,005)
		9,697	8,583
Other costs			
Computer and information services costs	8	2,598	2,824
Professional fees	9	1,500	1,756
Travel and car costs		466	418
Institution liaison and member communication		250	327
Office equipment		263	255
Telephones and postage		254	213
Insurances		194	177
Printing and stationery		149	161
FSA/IMRO membership		77	75
Pensions Act Levy		108	69
Auditors' remuneration	10	51	50
Sundry expenditure		51	34
Profit on disposal of fixed assets		(1)	(26)
Costs met by third parties	7	(553)	(637)
		5,407	5,696
Total operating costs		25,061	24,011

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

The notes on pages 81 to 87 form part of these financial statements.

UNIVERSITIES SUPERANNUATION SCHEME
USS LTD ACCOUNTS

BALANCE SHEET as at 31 March 2005

	Note	2005 £000	2004 £000
Assets			
Fixed assets			
Tangible fixed assets	14	1,589	2,037
Current assets			
Debtors	15	4,348	3,122
Cash at bank and in hand		3	2
		4,351	3,124
Total assets		5,940	5,161
Liabilities			
Creditors – amounts falling due within one year	16	5,940	5,161
Total liabilities		5,940	5,161

The notes on pages 81 to 87 form part of these financial statements.

The financial statements on pages 78 to 87 were approved by the board of directors on 28 July 2005 and were signed on its behalf by:

G J Davies
Chairman

M B Harris
Deputy Chairman

CASH FLOW STATEMENT for the year ended 31 March 2005

	Note	2005 £000	2004 £000
Operating activities			
Cash received from USS		23,518	24,801
Operating costs paid	17	(23,048)	(24,107)
Net cash inflow from operating activities		470	694
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(502)	(770)
Sale of tangible fixed assets		33	75
		(469)	(695)
Increase/(Decrease) in cash		1	(1)

The notes on pages 81 to 87 form part of these financial statements.

NOTES TO THE ACCOUNTS for the year ended 31 March 2005

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

3. Accounting policies

Accounting convention

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

Depreciation of fixed assets

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

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

Operating leases

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

Pensions

USS Ltd participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Earnings Related Pension Scheme.

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

4. Employees' emoluments

	2005	2004
The average weekly number of persons employed by the company during the year (excluding directors) was	158	149
Staff costs for the above persons were:	£000	£000
Wages and salaries	5,874	5,871
Pension costs (superannuation contributions)	679	629
Social security costs (national insurance contributions)	539	554
Restructuring costs	283	251
	7,375	7,305
Less recovery (see note 11)	–	(9)
	7,375	7,296

Emoluments of the chief executive	2005 £000	2004 £000
T H Merchant	198	30

The emoluments of the chief executive are shown on the same basis as for higher paid staff. USS Ltd's pension contributions for the chief executive amounted to £14,280 (2004: £2,310).

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

	2005	2004
£70,001 - £80,000	7	6
£80,001 - £90,000	2	2
£90,001 - £100,000	2	–
£100,001 - £110,000	1	3
£110,001 - £120,000	5	1
£120,001 - £130,000	1	1
£130,001 - £140,000	–	1
£140,001 - £150,000	–	2
£150,001 - £160,000	–	1
£160,001 - £170,000	1	1
£200,001 - £210,000	1	1
£430,001 - £440,000	1	–
£460,001 - £470,000	–	1

The salary figures above include bonus payments for the investment staff, totalling £463,392 (2004: £557,690) which relate directly to their contribution to fund out-performance. Both the bonus scheme and the annual outcome are reviewed by the remuneration committee.

5. Directors' emoluments and expenses

	2005 £000	2004 £000
Fees	356	360
Employer's costs - national insurance contributions	38	39
- VAT	–	5
Expenses	44	47
	438	451

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 2005 seven of the directors are members of USS either as pensioners or through their employment with the institutions.

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

	2005 £000	2004 £000
Professor Sir Graeme Davies (chairman)	43	42
H Jacobs	53	42
A S Bell	47	41
J W D Trythall	39	38
M S Potts	28	27
Professor Sir Martin Harris (deputy chairman)	27	17
Professor Charles Sutcliffe	25	24
Lady Merrison	23	8
Baroness Warwick of Undercliffe	22	22
Professor John Bull	20	1
C D Donald	12	47
Sir Howard Newby	11	11
Michael Butcher	5	–
L Collinson	–	25
Mrs A Crum Ewing	–	13
	355	358

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 paid by certain stockbrokers for the purchase of equipment and services for USS Ltd for investment management purposes out of the commission paid to them by USS.

8. Computer and information services costs

	2005 £000	2004 £000
Investment information services	1,109	1,099
Computer running costs	617	733
Software depreciation	448	483
Investment accounting services	243	306
Hardware depreciation	170	188
Computer bureau fees	11	15
	2,598	2,824

9. Professional fees

	2005 £000	2004 £000
Actuarial	656	780
Legal	488	569
Committee members (other than directors)	114	88
Investment consultancy	80	183
Taxation	70	30
Member medicals	37	36
Public relations	15	18
Pensioner mortality check	7	–
Salary surveys	–	19
Internal audit review	–	6
Other	33	27
	1,500	1,756

10. Auditors' remuneration

	2005 £000	2004 £000
USS	46	45
USS Ltd	5	5
	51	50

Remuneration of the company's auditors (KPMG LLP) for provision of services other than for the audit of USS and USS Ltd was £6,800 for advice on taxation, £8,354 for recruitment advice and £2,534 for a project management course (2004: £5,000 - for advice on taxation).

11. Correction of prior year pension increase

	2005 £000	2004 £000
Other consultancy costs	–	10
Staff costs	–	9
IT consultancy costs	–	–
Other costs	–	–
	–	19

The above costs were incurred during 2004, when 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. Total operating costs - recoverable from USS

	2005 £000	2004 £000
Investment management costs	15,930	14,727
Other administration costs	9,131	9,284
	25,061	24,011

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 £918,000 (2004: £988,000) as set out in note 14.

14. Tangible fixed assets

	Alterations to Rented Premises £000	Computer Equipment £000	Computer Software £000	Office Equipment £000	Motor Cars £000	Total £000
Cost						
At 1 April 2004	2,088	1,618	1,763	1,475	315	7,259
Additions	17	62	196	11	216	502
Disposals	–	–	–	–	(72)	(72)
At 31 March 2005	2,105	1,680	1,959	1,486	459	7,689
Accumulated Depreciation						
At 1 April 2004	1,544	1,386	1,123	1,030	139	5,222
Charge for year	163	156	412	91	96	918
Disposals	–	–	–	–	(40)	(40)
At 31 March 2005	1,707	1,542	1,535	1,121	195	6,100
Net Book Value						
31 March 2005	398	138	424	365	264	1,589
Net Book Value						
31 March 2004	544	232	640	445	176	2,037

15. Debtors - amounts falling due within one year

	2005 £000	2004 £000
Due from USS	3,428	1,885
Prepayments	893	830
Other debtors	27	407
	4,348	3,122

16. Creditors - amounts falling due within one year

	2005 £000	2004 £000
Accrued expenditure	2,824	3,462
Other creditors	2,677	1,506
Taxation and social security	439	193
	5,940	5,161

17. Reconciliation of operating costs paid

	2005 £000	2004 £000
Operating costs - recoverable from USS	25,061	24,011
Decrease in creditors (excluding USS)	(779)	676
Profit on sale of tangible fixed assets	1	26
Depreciation	(918)	(988)
Increase/(decrease) in debtors (excluding USS)	(317)	382
Operating costs paid	23,048	24,107

18. Operating lease commitments

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

	2005 £000	2004 £000
Less than one year	10	21
Between two and five years	9	9
Over five years	1,211	1,200

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

19. 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.

UNIVERSITIES SUPERANNUATION SCHEME
USS LTD ACCOUNTS

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% 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 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 £678,904 (2004 : £628,120). The contribution rate payable by the company was 14% of pensionable salaries.

20. Related party transactions

There are no related party transactions other than transactions between the trustee company and the scheme. The trustee company provides administration and investment management services to the scheme charging £9.1 million and £15.9 million respectively, with a balance due from the scheme of £3.4 million at 31 March 2005.

21. 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 on pages 78 to 87.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 77, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 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 with the company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2005 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
Chartered Accountants
Registered Auditor

Date: 28 July 2005

Sir Graeme Davies
Chairman

CHAIRMEN OF PRINCIPAL SUB-COMMITTEES

H R Jacobs
Chairman
Remuneration and Rules Committees
Acting Chairman
Investment Committee

Professor Sir Martin Harris
Chairman
Finance & General Purposes Committee

Dr Christine Challis
Chairman
Audit Committee

Sir Kenneth Berrill
Chairman
Joint Negotiating Committee

Dr Angela Roger
Chairman
Advisory Committee

Professor John Bull
Chairman
Nominations Committee

PRINCIPAL OFFICERS

Bernadine Steventon
Pensions Operations Manager

Robert Walden
Surveyor

Brendan Mulkern
Pensions Policy Manager

John P Williams
Company Secretary (retired)

Peter Moon
Chief Investment Officer

Tom Merchant
Chief Executive

Iain Hall
Head of IT

Colin Busby
Communications Manager

Ian Sherlock
Company Secretary

Colin Hunter
Chief Financial Officer

USS