USS

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

Report and Accounts

for the year ended 31 March 2007

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 2007 of around £30 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

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MANAGEMENT STATEMENT

The year to 31 March 2007 was another year of continued growth for the fund. The scheme's active membership increased by 4.8% from 115,600 to 121,200, the number of pensioners by 5.6% from 44,700 to 47,200 and the number of deferred pensioners by 7% from 66,100 to 70,700. The total membership at 31 March 2007 was just over 239,100, an increase of 28% in four years.

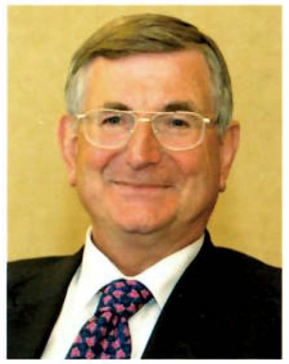
The fund's assets have also continued to grow and at 31 March 2007 the total value of the fund stood at £30.1 billion. Stock markets were strong for the fourth year running in 2006, following three years of negative returns from 2000 to 2002, although the fund's return of 9.9% in 2006 was below its benchmark return of 12.2%. The ten-year return of the fund of 7.8% comfortably exceeds both earnings growth and retail price inflation over the same period.

The rising stock markets, coupled with an increase in gilt yields, have also resulted in an improvement in the scheme's funding level. At the date of the last valuation at 31 March 2005, at which point equities were only just beginning to recover from a three year bear market, the scheme's funding level had stood at 77%. As at 31 March 2007, however, the actuary estimated that the funding level had increased to 91%.

Whilst this improvement in the funding level is of considerable comfort, the pressures on the funding of the scheme, and in particular salary increases in excess of previous experience and improving longevity, remain. The management committee undertook a review during 2006, in consultation with the participating employers, of the funding of the scheme to determine whether an increase in contributions should be made in advance of the next valuation at 31 March 2008. As a result of this review, the trustee company introduced a charge, payable by the employers, to cover the cost of providing unreduced benefits on retirement below the age of 60. The actuary has estimated that this charge should have the effect of improving the scheme funding level by approximately 3% and easing the demand on the future service contribution rate by approximately 2%.

The consultation exercise with the employers also indicated broad support for an increase in the retirement age for future entrants to the scheme to 65. A rule change to put this into effect is being considered by the USS joint negotiating committee. Following the review, and acting on actuarial advice, the trustee company decided not to increase contributions in advance of the 2008 valuation but will review the contribution rate again following consideration of the results of that valuation.

The fund has continued with its policy of diversification into alternative assets, which commenced last year. This is progressing well and as at 30 June 2007 the alternative assets portfolio accounted for 2.3% of total investments and is on track to achieve its target of 5% by 31st March 2008. Consideration will be given to increasing this to 20% over the medium term.



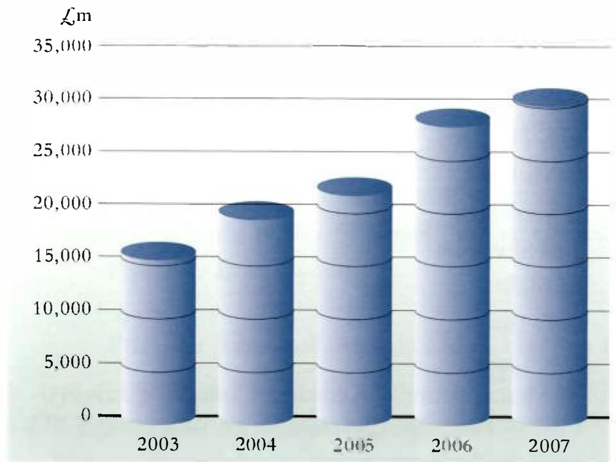
Martin Harris
Chairman

During the year staff from across the company have worked with Civica, the administration software provider, to upgrade our pensions administration system to a new application (UPM2). Implementation is scheduled for early 2008. The upgrade to UPM2 provides an opportunity to enhance our award winning web site and during the coming year we will be working with members and users at the institutions to understand how we can maximise the technology to further improve service levels and data quality, while, at the same time reducing operational costs both at the trustee company and at institutions.

Tom Merchant
Chief Executive

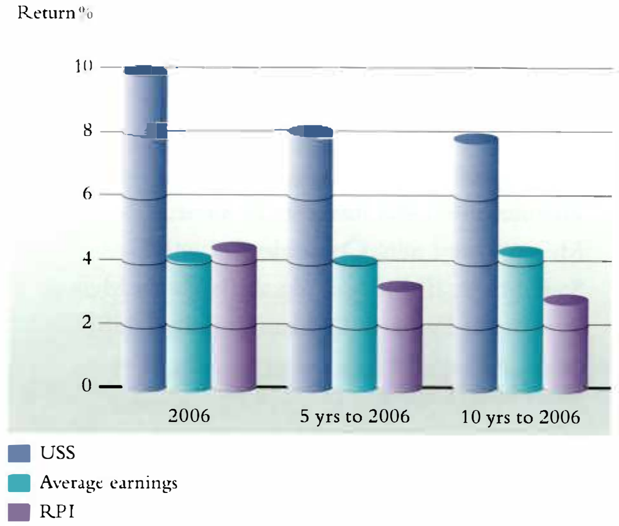
SUMMARY OF YEAR

FUND



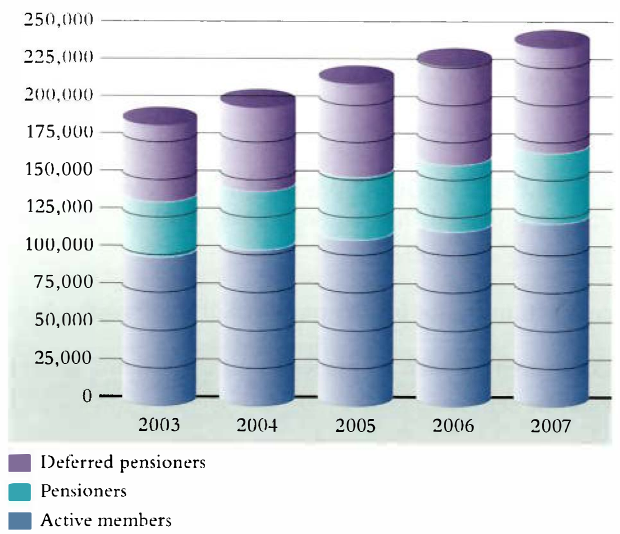
The fund's investments have increased from £15.5 billion in 2003 to £30.1 billion as at 31 March 2007. More details are given in the investment committee report on page 19 and in the five year summary of the fund accounts on page 73.

PERFORMANCE



Strong investment returns since 2003 have seen the fund's position improve, resulting in the 5 year and 10 year returns comfortably exceeding both RPI and average earnings.

MEMBERSHIP



The membership of the scheme continues to grow steadily. As at 31 March 2007 the total membership was 239,100 an increase of 5.6% from last year and 28.0% from four years ago. More details are given in the five year summary of the fund accounts on page 73.

PRINCIPAL OFFICERS AND ADVISERS

The principal officers and advisers of the trustee company at 1 August 2007 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
Actuary	E S Topper of Mercer Human Resource Consulting Limited Clarence House, Clarence Street, Manchester M2 4DW
Solicitors	DLA Piper, India Buildings, Liverpool L2 0NH
Auditors	KPMG LLP, St James' Square, Manchester M2 6DS
Bankers	Barclays Bank Plc, 4 Water Street, Liverpool L69 2DU

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

Solicitors	Clifford Chance, Lawrence Graham, Mitchells Roberton
Investment managers	Capital International Limited, Legal & General Assurance, Wellington Management International, Henderson Global Investors Limited
Investment consultants	Mercer Investment Consulting
Custodians	State Street, JP Morgan plc, ABN Amro Mellon
Investment performance measurement	Investment Property Databank Limited, HSBC
Retail property investment adviser and property manager	Jones Lang LaSalle
Commercial property investment adviser and property manager	DTZ Debenham Tie Leung
Property valuers	Drivas Jonas
Computer software	Civica plc, Azlan Limited, Morse Limited, GSL Limited, Avanade UK Ltd, Transmedia Gateway Limited (tmg)
Website design	Anthony Hodges Consulting Ltd
Computer hardware	Hewlett-Packard Limited
Data recovery	Synstar Business Continuity Limited
Insurers	Royal & Sun Alliance, AIG Europe (UK)

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 scheme administrator for the purposes of the Finance Act 2004.

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

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

The membership at 31 March 2007 of the principal committees was as follows:

Management Committee

Appointed by Universities UK (UUK)
Sir Martin Harris (Chairman), Professor Sir Ivor Crewe, M S Potts, Baroness Warwick of Undercliffe
Appointed by the University and College Union (UCU)
Lady Merrison, Professor Charles Sutcliffe, D Guppy
Appointed by the Higher Education Funding Councils (HEFCs)
Professor D Eastwood
Co-opted
Professor John Bull, M Butcher, V Holmes, H R Jacobs

Finance & General Purposes Committee

Appointed by the management committee
Professor John Bull (Chairman), D Guppy, V Holmes, H R Jacobs, Lady Merrison, M S Potts, Baroness Warwick of Undercliffe

Investment Committee

Appointed by the management committee
V Holmes (Chairman), G Allen, Professor John Bull, A Gulliford, Sir Martin Harris, H R Jacobs, D Robins, Professor Charles Sutcliffe

Audit Committee

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

Remuneration Committee

Appointed by the management committee
H R Jacobs (Chairman), M Butcher, Lady Merrison, M S Potts, 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
A D Linfoot (Chairman), Dr A Bruce, C Vidgeon
Appointed by UCU
Dr A Roger, J Guild, Dr S Wharton

Nominations Committee

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

Joint Negotiating Committee

Independent Chairman
Sir Kenneth Berrill
Appointed by UUK
Dr A Bruce, I Crawford, J Gordon, A D Linfoot, C Vidgeon
Appointed by UCU
Dr J Anderson, A Carr, G Egan, Dr T McKnight, Dr A Roger

MANAGEMENT COMMITTEE MEMBERS as at 1 August 2007

Sir Martin Harris, Chairman

Martin Harris (63) 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 deputy chairman from 1 July 2004 and chairman from 1 April 2006. He was Vice-Chancellor of the University of Manchester from 1992 to 2004 and Vice-Chancellor of the University of Essex from 1987 to 1992. He served as chairman of the Committee of Vice-Chancellors and Principals (now UUK) from 1997 to 1999.

DIRECTORS

Professor John Bull

Professor Bull (67) was Vice-Chancellor of the University of Plymouth from 1989 until his retirement in 2002. An economist and accountant by discipline, he had a particular interest in the finance and management of higher education. He became a co-opted member of the USS board in 2004 and deputy chairman on 1 April 2006. His is currently chairman of the Plymouth Hospitals NHS Trust, the Devon and Cornwall Learning and Skills Council and of Dartington College of Arts.

David McDonnell

David McDonnell (64) has been Chief Executive Officer of Grant Thornton International since 2001. He is currently President of the University of Liverpool, Honorary Fellow of Liverpool John Moores University, Deputy Lieutenant of the County of Merseyside and a committee member on various charities. He was Chairman of the Trustees of the National Museums Liverpool for ten years and was awarded the CBE in June 2005 Queen's Birthday Honours. He was appointed Director of USS Ltd in April 2007.

Lady Merrison

Lady Merrison (68) 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 insurance. She is currently chairman of The HTV Pension Scheme and director of two other pension schemes. She is also president of the Guild of Friends of the Bristol Royal Hospital for Sick Children and sits on several trusts.

Professor Charles Sutcliffe

Charles Sutcliffe (59) teaches finance at the ICMA 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 a UCU nominated director of USS Ltd in 2001.

Baroness Warwick of Undercliffe

Diana Warwick (62) was appointed chief executive of Universities UK in 1995. Previously she had been for three years Chief Executive of the Westminster Foundation for Democracy and from 1983-1993 she was the General Secretary of the Association of University Teachers, representing some 30,000 academic and senior staff in UK universities. She was a member of the Employment Appeals Tribunal from 1984 to 1999 and the Standing Committee on Standards in Public Life from 1994 to 2000. From 1985 to 1995 she served as a board member of the British Council, was a governor of the Commonwealth Institute until 1995, and a member of the TUC General Council between 1989 and 1992. She has honorary degrees from Bradford, Open and London universities.

Howard Jacobs

Howard Jacobs (54) became a co-opted member of the board on 1 October 2002 upon his retirement from the solicitors, Slaughter and May, where he specialised in employment law and pensions law. He remains a consultant with that firm. He is also chairman of the Woolworths Group Pension Scheme and a vice-president of ICAN the national educational charity for children with communication difficulties.

Michael Butcher

Michael Butcher (60) became a co-opted member of the board on 1st November 2004 having retired from IBM where he held a variety of technical, sales and marketing positions in UK and Europe, latterly as Tivoli EMEA Marketing Director. He is a member of the audit committee at Loughborough University and a director of the IBM UK pension fund. He continues to take an active interest in the effective use of IT.

Virginia Holmes

Virginia Holmes (47) was formerly chief executive of AXA Investment Managers in the UK, and managing director of Barclays Bank Trust Company. She is currently non-executive director and chair of the audit committee of JP Morgan Fleming Claverhouse Investment Trust. She became a director of USS in September 2005.

Dave Guppy

Dave Guppy (63) has worked in the computing service at University College London since 1979. Prior to that he worked in similar roles at the London Hospital Medical College, a software co-operative and IBM. He was President of University College London Association of University Teachers (2002/04) and served as Vice-Chair of the national AUT computer staffs committee (1998/2003). He was a member of the national executive committee of the Association of University Teachers and was its Vice-President for one year in 2005/06. He was appointed a director of USS Ltd in 2005.

Professor David Eastwood

Professor David Eastwood (48) became Chief Executive of HEFCE on 1 September 2006. He was previously Vice-Chancellor of the University of East Anglia (UEA). Before taking up his position at UEA, Professor Eastwood was Chief Executive of the Arts and Humanities Research Board. Previously he held a Chair in Modern History at the University of Wales Swansea, where he was also head of department, dean and pro-vice-chancellor. He was fellow and senior tutor of Pembroke College (1988-95), and is an Honorary Fellow of St Peter's College, Oxford, from where he graduated in 1980, and of Keble College, Oxford from 2006. Professor Eastwood was made an Honorary D. Litt of the University of the West of England in 2002 and the University of East Anglia in 2006.

Professor Sir Ivor Crewe

Ivor Crewe (61) was appointed Vice-Chancellor of the University of Essex in 1995, having first joined the University as a lecturer in Government in 1971. He served as President of Universities UK from 2003 to 2005 and remains a member of UUK's board and executive committee. He is a board member of the Universities and Colleges Employers' Association and of the Leadership Foundation for Higher Education. He was appointed a director of USS in April 2006.

MANAGEMENT COMMITTEE

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

Committee members

There were two changes in membership of the committee during the year. Mr Steve Egan ceased to be the Funding Councils' appointed director of the trustee company on 31 December 2006 and was succeeded by Professor David Eastwood. Mr Michael Potts retired on 31 March 2007 and was succeeded as a Universities UK appointed director by Mr David McDonnell on 1 April 2007.

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

The co-opted directors are appointed with the prior approval of the joint negotiating committee and are independent. 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. Trustee company directors normally serve a three-year term but are eligible for reappointment. The management committee has decided that co-opted directors serve for a maximum of three three-year terms, with the option of it considering a further three-year term in exceptional circumstances (which would then be recorded in this report).

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

Performance evaluation

During the year consideration was given to the extent to which an independent third party might be able to assist in evaluating the performance of the board and its principal sub-committees. Following a selection process the management committee appointed Independent Audit Ltd to carry out this evaluation and it is due to present its report to the management committee in September 2007.

Trustee knowledge and understanding

The requirements of the Pensions Act 2004 relating to trustee knowledge and understanding came into force on 6 April 2006, together with the Pensions Regulator's accompanying code of practice. The chairman of each principal committee produced a skills requirement profile for their committee and each committee member has used a self-assessment questionnaire, produced by Mercer Human Resource Consulting, to identify their level of relevant knowledge and understanding. The results of the questionnaires were assessed against the skills requirement profile for each committee and each committee chairman has been provided with an analysis of the level of knowledge and understanding of members of their committee. Where appropriate, training sessions will be arranged for individuals or groups of committee members to bridge any identified gaps.

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 members and participating employers are content, that the scheme's investment policy is appropriate for the scheme's liabilities and that the scheme continues to meet the developing needs of the UK higher education sector.

The specific responsibilities reserved to the 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, also 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 also to the approval of the joint negotiating committee); the admission of new institutions and removal of existing institutions; determining policy on the treatment of participating employers 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 also be required).


Mark Shawyer, IT Business Systems and Shelagh O'Grady, Fund Accountant.

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 and exercise of trustee company discretion in the determination and payment of benefits. 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 promotes constructive relations between the directors and the officers of the trustee company to ensure that directors receive accurate, timely and clear information and that there is adequate communication with the scheme's stakeholders.

The chief executive has direct charge of the organisation on a day-to-day basis and is accountable to the 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 and for monitoring the performance of the external investment managers and reporting on these matters to the investment committee.

Committee meetings

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

	Management	Investment	F&GPC	Audit	Remuneration	Rules	Nominations*
Sir Martin Harris	7 (7)	5 (5)	–	–	–	–	–
Professor John Bull	7 (7)	5 (5)	5 (5)	4 (4)	–	–	–
Michael Butcher	7 (7)	–	–	4 (4)	3 (3)	–	–
Sir Ivor Crewe	5 (7)	–	–	–	–	–	–
David Eastwood	2 (2)	–	–	–	–	–	–
Steve Egan	4 (5)	–	–	–	–	–	–
Dave Guppy	6 (7)	–	4 (5)	–	–	–	–
Virginia Holmes	7 (7)	5 (5)	4 (5)	–	–	–	–
Howard Jacobs	6 (7)	4 (5)	4 (5)	–	2 (3)	4 (4)	–
Lady Merrison	7 (7)	–	5 (5)	4 (4)	3 (3)	–	–
Michael Potts	7 (7)	–	5 (5)	4 (4)	3 (3)	–	–
Professor Charles Sutcliffe	7 (7)	5 (5)	–	4 (4)	–	–	–
Baroness Warwick	7 (7)	–	4 (5)	–	2 (3)	–	–

*The nominations committee did not meet during the year.

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

Institutions

At 31 March 2007 there were 391 institutions which had become member institutions by completing a deed of accession. They comprised all the 'old' UK universities (ie those established prior to 1992), including the constituent schools and colleges of the universities of London and Wales, colleges of the universities of Oxford and Cambridge and 251 other institutions.

Changes in institutions participating occurred as follows:

New participating institutions:

Cambridge University Technical Services	University And College Union
Care Co-Ordination Network UK*	University Of Gloucestershire*
Centre For Advanced Software Tech Ltd	University Of Northampton
Crescent Purchasing Ltd	The Nuffield Health & Social Services Fund
Equality Challenge Unit	The Oxford Colleges Admissions Office
JBS Executive Education Ltd	The English Association
JISC Content Procurement Company	Sarah Lawrence at Oxford
The Sainsbury Centre For Mental Health	Nuinto Limited*
UCL Bio Medica Plc*	

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

Institutions which ceased to participate:

The Association of University Teachers
University College Northampton

Scheme membership

During the year 19,403 new members joined the scheme and at 31 March 2007 the total membership, including pensioners and those entitled to deferred benefits, was 239,100 compared with 226,400 a year earlier. Further details of the changes in membership during the year are contained in the section "Membership Statistics" on page 44 and over the five years ended 31 March 2007 in the Summary on page 73.

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

Members continue to be able to share pension scheme benefits with their ex-spouse in the event of divorce. Since pension sharing began on 1 December 2000 there have been 3,655 requests for information up to 31 March 2007 and 298 ex-spouses now have benefits within the scheme in their own right as a result of pension sharing.

Expansion and flexibility

A number of enquiries have been received during the year regarding a potential merger with USS under the trustee company's expansion policy – this follows the introduction of revised arrangements which were communicated to institutions in March 2006. During the year no actual mergers were completed, however a number of applications were progressed and it is anticipated that some mergers will proceed through to completion during 2007/08.

With regard to flexibility, the sector continues to proceed with implementation of the pay framework agreement which has pension implications in that employees are (in a number of cases) redesignated into USS eligible posts where formerly they were in employment subject to an institution's support staff pension arrangements. The trustee company has confirmed that it

is willing, subject to the agreement of the institution, to permit such members to choose whether they wish to become members of USS or remain in their existing pension arrangement. The trustee company believes that this flexibility is helpful to institutions during the implementation of the framework agreement, and will continue to support institutions as they assess the pension implications of the redesignation of posts.

The government's pensions reform

The government has continued to develop and implement significant reforms to the pensions landscape, most notably the reforms to the taxation rules governing pension schemes which came into force on 6 April 2006 (known as A-day). The A-day changes involve an extensive simplification of the tax legislation, although it will perhaps be some time before USS sees the benefits of the new arrangements. There has been much activity during the year in dealing with the implementation issues arising from A-day. and the trustee company has considered and agreed a series of 'second order' changes – the priority issues having been decided before April 2006 – which have been duly implemented.

Andy Hale and Carol Bradshaw, Pensions Supervisors.

The activity on A-day issues is not complete as a number of matters of practical importance remain, and importantly Her Majesty's Revenue and Customs is committed to reviewing some of these elements of the reforms during 2007.

During the year the government has unveiled its proposals for reform of the state pension scheme which, amongst other things, involves the changing of the state pension age from age 65 to (in certain cases) age 68, and with changes to the Second State Pension. The government has also announced proposals for the introduction of a new National Pension Savings Scheme based around Personal Accounts, a new provision to encourage pension saving (planned for 2012). All of these developments are of importance for the trustee company, in particular to understand the way a good occupational pension scheme such as USS will interact with these new arrangements (and how employers and members will be affected). The trustee company will continue to monitor developments closely.

Finally, during the year the trustee company has received its first risk-based levy under the Pension Protection Fund (PPF). The earlier representations to the PPF on the structure of the risk-based levy for multi-employer pension schemes has been valuable in securing an improved outcome for the scheme, and USS institutions have played their part by reducing their Dun and Bradstreet "failure scores". The trustee company will continue to engage with the PPF in the coming year to try to ensure that the levy reflects, as far as possible, the likelihood of USS making a claim on the PPF.

Rule amendments

During the year rule changes were considered by the committee which resulted in five amending deeds being executed. Details of the rule amendments are given in the report of the joint negotiating committee on page 28.

Working parties

The Regular and Irregular Employment Working Party

The Regular and Irregular Employment Working Party (a working party of the Joint Negotiating Committee) has continued to meet during the year to consider issues for members in variable time employment and in multiple employment under USS, and a report on its progress is included in the separate report for the JNC.

Pension increases

Section 15 of the USS rules provides that pensions in payment, deferred pensions and deferred lump sums payable from the main section shall be increased in a similar manner to the increases provided for official pensions under the Pensions (Increase) Act 1971 (although increases on the amount of pension which represents the Guaranteed Minimum Pension (GMP) are treated differently - see below). USS pensions were increased by 2.7 % on 21 April 2006.

On 21 April 2007 USS pensions which satisfied certain qualifying conditions and began before 25 April 2006 were increased by 3.6% 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 guaranteed minimum pension (GMP) is generally not increased by USS as increases are paid by the Department for Work and Pensions, as are increases in excess of 3% on that part of the pension which represents the post-1988 GMP. More detail on the way in which increases are applied to the GMP is given in the USS booklet *'Payment of Retirement Benefits'* which is issued to all USS pensioners and can be found on the USS website at **www.usshq.co.uk**

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

Contribution rates

The rates of contributions payable by members and institutions between 1 April 2006 and 31 March 2007 were as follows, unchanged from the previous year:

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

Actuarial matters

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

As at 31 March 2007, the actuary estimated that the funding level was 91%, ie the assets in the fund amounted to 91% of the estimated liabilities. This was an improvement in the funding level of 77% reported at the last triennial valuation as at 31 March 2005. The improvement in the position is mainly due to the investment return on the scheme's assets since 31 March 2005 being higher than that specified in the funding assumptions.

In addition to the funding basis that the scheme uses for its triennial valuations, the actuary also calculates the USS funding position on a number of other bases. The most common basis, used for other occupational pension schemes in the UK for accounting purposes, is as specified in FRS17. On this basis, the actuary estimated that the funding level at 31 March 2007 was 109%.

As was reported last year, the management committee undertook a review of the funding of the scheme during 2006, in consultation with the participating employers, to determine whether an increase in contributions should be made in advance of the next valuation at 31 March 2008. As a result of this review, the trustee company introduced a charge, payable by the employers, to cover the cost of providing unreduced benefits on retirement below the age of 60. The actuary has estimated that this charge should have the effect of improving the scheme funding level by approximately 3% and easing the demand on the future service contribution rate by approximately 2% (which will be used to address the increasing funding pressures from improving longevity and higher than anticipated salary increases within the sector).

The consultation exercise with the employers also indicated broad support for an increase in the retirement age for future entrants to the scheme to 65. This would bring USS into line with other schemes and is in line with government policy on increasing retirement ages in the light of continued improvements in longevity. A rule change to put this into effect is being considered by the USS joint negotiating committee. Following the review, and acting on actuarial advice, the trustee company decided not to increase contributions in advance of the 2008 valuation but will review the contribution rate again following consideration of the results of that valuation.

A more detailed statement by the management committee on the scheme's funding position is published at page 32. The statement is published following full discussion with, and with the approval of, the scheme actuary.

Accounting matters

The financial statements of the scheme for the year ended 31 March 2007 are set out on pages 57 to 65; and the auditors' statement about contributions and trustee's summary of contributions are set out on pages 67 and 70. The financial statements have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

The accounts of Universities Superannuation Scheme Limited (the trustee company) are set out on pages 74 to 88 and show an increase in operating costs from £32.5 million in 2005/2006 to £38.1 million in 2006/2007. This represents a 9% increase in administration costs (mainly due to an increase in the PPF levy) and a 22% increase in investment management costs (mainly due to unbundling of brokers' costs resulting in their appearing in the trustee company's accounts for the first time).

The Pension Protection Fund (PPF) levy was paid for the first time during 2005/06. The increase this year is partly due to the increase in the number of members in USS but mainly results from the increase in the levy rate calculated by the PPF (and its new risk-based calculations). Increased staffing, in line with the demanding systems development workload being undertaken in Liverpool, has also contributed to the increase in costs.

The unbundling of stockbrokers' commissions is not, in fact, a real increase in costs as these costs were previously included in the book cost of the fund's assets in the USS financial statements. The move to paying for research separately makes the cost of running the fund more transparent and is likely to reduce costs to the fund overall.

Excluding the PPF levies and the unbundling of stockbrokers' commissions, total costs fell by approximately 1% - administration costs increasing by 4% and investment management costs falling by 4%.

Further details regarding the operating costs and a review of the activities for the year are given in the Directors' Report & Accounts on page 74.

Investment policy

The arrangements for management and custody of the assets, together with the approximate proportion managed by each manager at 31 March 2007, were as follows:

(a) 67.8% was managed internally by the trustee company's London Investment Office (with JP Morgan as custodian), of which 60.5% were securities (or alternative investments or cash) and 7.3% were property assets. The internally managed fund has a balanced mandate;

(b) 9.3% was managed by Capital International Limited (with ABN AMRO Mellon as custodian) with a global equity mandate;

(c) 9.2% was managed by Wellington Management Company (with ABN AMRO Mellon as custodian) with a global equity mandate;

(d) 13.7% was administered internally on the advice of HSBC James Capel Quantitative Techniques with a mandate to track the FTSE All-Share Index of UK equities (with JP Morgan as custodian);

During the year a review of the position of custodian to the fund was carried out. It was decided that it was prudent to retain two custodians, one for the assets managed internally and one for the assets managed by the external managers. JP Morgan was retained as custodian for the internally managed fund but it was decided to appoint ABN AMRO Mellon to replace State Street, in February 2007, as custodian for the assets managed externally.

The year to 31 December 2006 was another good year for pension fund performance generally, with positive returns for the average fund for the fourth consecutive year. However, the fund's return of 9.9% fell short of its benchmark return of 12.2%. Further details of the investment targets, investment performance and amounts managed by each manager are given in the report of the investment committee.

Corporate governance

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

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

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

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

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

The 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. All statutory and internal targets have been met satisfactorily.

The annual meeting with institutions' representatives took place in London in December 2006 with a report of the proceedings available on the USS website.

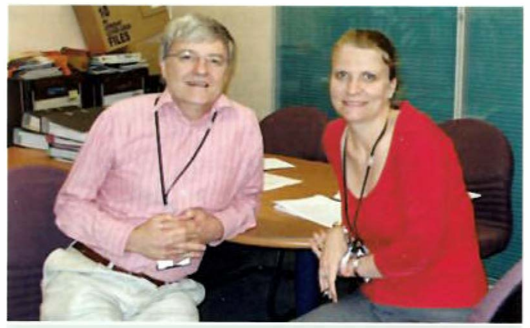
HR Team: Emma Mason, Linda Lee and Jo Cunliffe (seated).

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 was one instance of late payment of contributions (of less than £2,000) by an institution. This occurred as a result of an administrative problem by the institution concerned and the contributions were subsequently remitted in full. There was no requirement to report this to the Pensions Regulator.

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

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


Terry Raby and Gill Howard, Internal Audit.

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

During the year staff from across the company have worked with Civica, the administration software provider, to configure the new processes and calculations and develop the new functionality for the upgrade of our systems to the new UPM2 application. Implementation is scheduled for early 2008 and will provide greater flexibility for the trustee company and reduce our reliance on external suppliers. The upgrade to UPM2 provides an opportunity to enhance our award winning web site to include functionality for processes to be carried out on-line. During the coming year we will be working with members and users at the institutions to understand how we can maximise use of the technology available to improve service levels and data quality while, at the same time, reducing operational costs both at the trustee company and institutions. Work will begin early in 2008 to develop the new web site before releasing the initial phases later in the year.

Retirement age for deferred members

In accordance with the Court Order first reported in 2004, we continued the exercise of identifying which former members of the scheme who had retired or transferred their benefits out of USS would be entitled to an additional payment because their contractual pension age was less than 65. We also updated our records to show the earliest date that current deferred pensioners in the scheme could draw their benefits without actuarial reduction in accordance with the contractual pension age advised by their former USS employers.

The benefits relating to members affected by the Court Order were recalculated for pensioners, private transfers-out, deferred and deceased members. Transfers to schemes that participate in the Public Sector Transfer Club were progressed as soon as we received the agreement from the Cabinet Office on a proposed administration charge which the club schemes required before they would accept the revised transfer payments.

The total sum paid out under this exercise by way of additional benefits as at 31 March 2007 has been included in the financial statements of USS.

This exercise is largely complete although it is likely that some further adjustments to benefits may be made in future if an entitlement can be established.

Communications

The programme of member presentations included 34 institution visits, attended by approximately 4,400 members. The number of members attending during the year remained higher than usual due mainly to interest in the A-day changes from April 2006.

The website has been developed throughout the year seeing improvements in the capabilities of the modellers and the inclusion of a new 'Tax Optimisation' calculator to help members make the most efficient use of tax relief when considering large payments to the USS AVC facilities.

The institution advisory panels, comprising representatives from 24 of the largest institutions, met four times during the year. A variety of topics were discussed including the incapacity retirement process review, ePensions strategy, imminent rule changes, PRT interest and recycling of retirement lump sums.

Training seminars for institution staff continue to be popular, attracting staff who are new to pensions and others who welcome the opportunity to update their pensions knowledge. The programme of seminar dates for the next 12 months can be found on the USS website. Several workshops were held during the year for institution contacts as part of the consultation exercise relating to the future funding of USS and on the proposal to introduce flexible retirement.


Delegates attending the annual USS Institutions' Meeting, London - 7 December 2006.

Further Pensions TV programmes have been added to the website including a programme for members considering a transfer of benefits to USS, another aimed at members from overseas working in the UK and one that explains what happens when a member leaves USS.

The agreement with Prudential to administer the money purchase AVC facility, which they have done since 1993 when they were appointed, was reviewed during the year. The scheme actuary compared the performance of the AVC funds available to USS members with those available from other providers and reported that Prudential's performance was satisfactory. As a result it was decided to maintain the existing arrangement with the Prudential but with the addition of a new lifestyle fund option. We continue to work closely with Prudential to ensure that our members have the opportunity to receive full information on both the added years and money purchase AVC options. During the year we have reviewed taped recordings of individual meetings held between members and Prudential representatives, provided training to Prudential staff regarding scheme developments and agreed a form of words to be used by Prudential call centre staff when speaking to members about their options.

Disclosure requirements

The general rights which members and beneficiaries have always enjoyed to request information under trust law have been greatly supplemented by statutory disclosure requirements which apply under the Occupational Pension Schemes (Disclosure of Information) Regulations 1996.

Where the requirement is for a document to be available for reference by an interested person, it is met by providing each institution with access to a complete library of publications via the scheme's website. Other information, for example *A Guide for USS Members*, must be provided to every new member and supplies are available from our Liverpool office to enable institutions to issue them as part of their appointment procedures. Individual statements are required on the occurrence of certain events such as leaving service, retirement or death and these are provided by our Liverpool office as part of the processing of such benefits.

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

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

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

Acknowledgements

The chairman would like to thank Mr Egan and Mr Potts for their contribution to USS matters during their terms of office on the committee.

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

Signed on behalf of the management committee.

Sir Martin Harris
Chairman

INVESTMENT COMMITTEE

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

Highlights

- Stock markets were strong for the fourth year running in 2006 with the fund returning 9.9% compared with 24% in 2005 and 8.9% in 2004. This was a disappointing return against the fund's benchmark of 12.2%. The ten year returns on the fund stand at 7.8% per annum compared with the benchmark of 8.9% per annum. Including net cash flow and capital movements, the value of the investments in the fund rose from £28.2 billion at 31 March 2006 to £30.1 billion at 31 March 2007.

- The fund's diversification into alternative investments is progressing well following the review of investment policy referred to in last year's report. The alternative assets portfolio accounted for 2.3% of total investments as at 30 June 2007, with an equivalent reduction in equity holdings, and is on track to achieve its target of 5% by 31 March 2008. Consideration will be given to increasing this to 20% over the medium term.

- The fund has reviewed its commission arrangements with brokers such that it now pays directly for the majority of its research and pays separately for dealing commissions on share transactions. This has led to estimated savings of some £5 million in total costs for the fund in the year ended 31 March 2007.

- The fund continues to play a leading role in responsible investing in the UK and overseas and has recently increased its resource to a team of four to support its activity in this area.

Investment management


Grand Arcade, Cambridge.

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 (LIO) manages the majority of the assets. A separate fund designed to match the performance of the FTSE All Share index is run in-house on advice provided by HSBC Quantitative Techniques. In alternative asset classes we employ a number of external managers and funds who are selected and monitored by the LIO. The balance of the fund is run on specialist mandates, with Capital International and Wellington having a global equity remit. Both these managers are rewarded partly on an ad valorem basis and partly on their performance. As mentioned in last year's report, the specialist mandate with Goldman Sachs was terminated in March 2006 and those with Legal & General and Henderson in June 2006.

Jones Lang La Salle and DTZ 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.

TOTAL INVESTMENTS OF THE FUND

The investments are stated at market value. Details of the values and changes are summarised in note 9 of the USS accounts on page 62.

	Internally managed		Externally managed					
Fund manager	London Investment Office		Capital International	Wellington	Henderson	Legal & General	**Total 31 March 2007**	Total 31 March 2006
	Active £m	Passive £m	Active £m	Active £m	Passive £m	Active £m	**£m**	£m
UK equities	6,589.1	4,094.3	366.9	192.8	–	–	**11,243.1**	10,197.2
Overseas equities	8,935.3	–	2,140.5	2,516.0	–	–	**13,591.8**	13,039.0
UK fixed interest	253.1	–	–	–	–	–	**253.1**	1,127.4
Overseas fixed interest	1,931.7	–	–	–	–	–	**1,931.7**	799.6
Pooled investments – securities	105.2	0.4	226.5	–	–	–	**332.1**	610.0
Pooled investments – property	1,011.0	–	–	–	–	–	**1,011.0**	1,014.1
Direct property	1,162.6	–	–	–	–	–	**1,162.6**	1,042.3
Cash and equivalent	190.1	1.2	37.4	30.9	–	–	**259.6**	300.1
Other investment balances	220.3	31.1	15.2	12.6	–	–	**279.2**	116.3
Total 2007	**20,398.4**	**4,127.0**	**2,786.5**	**2,752.3**	**–**	**–**	**30,064.2**	
Total 2006	18,036.4	3,419.7	2,676.4	2,714.9	323.6	1,075.0		28,246.0

Alternative investments

Included within the above are £584.8m (2006: £255.0m) of alternative assets, representing 1.95% of total investments. These are classed within UK equities (£63m), overseas equities (£416.4m), overseas fixed interest (£13m), pooled investments securities (£91.6m) and cash (£0.8m) and are further analysed below:

	31 March 2007
	£m
Infrastructure	428.6
Private equity - funds	59.8
Private equity - direct	47.7
Other	48.7
Total	**584.8**

USS investment performance results

The performance of the various fund managers for the year to 31 December 2006 is shown below:

	% Fund Return	**% Benchmark Return**
LIO (including alternatives)	8.3	10.6
Capital International	8.9	8.9
Wellington	5.5	8.9
UK Index	16.7	16.8
Property	15.8	18.5
Total Fund	9.9	12.2

Included within total fund performance for the year are the Goldman Sachs, Legal & General and Henderson Enhanced Index portfolios, whose mandates as already mentioned, were terminated during 2006. Their underperformance against benchmark and the associated costs of transition and the restrictions placed on dealing during that period contributed to the fund's total underperformance. However the majority of the fund's underperformance arose primarily in overseas equities and property. Conversely performance in fixed income and UK equities was strong whilst asset allocation was broadly neutral. The fledgling alternatives portfolio also generated positive returns against benchmark.

Poor stock selection at the London Investment Office was the primary reason for the fund's disappointing overseas equity returns, furthermore the external manager's distinct style has also been out of favour and this has detracted from performance. Currency movements also contributed to the fund's underperformance and the investment committee has recommended that the fund move to a currency hedged equity position, which will limit volatility from currency movements against sterling in future.

The fund has also undertaken a major restructuring of its property portfolio. This has included sales of its units in Gyle Shopping Centre Unit Trust; the shopping centre development at Leeds and very recently, in June 2007, its units in Telford Shopping Centre Unit Trust. These three holdings accounted for 36% of the total property portfolio as at 1 April 2006. The fund is actively investing in new properties as attractive investments are identified, and a positive return against benchmark is expected from this area moving forward.

As at 31 March 2007 the fund's asset allocation against benchmark was the following:

	Actual %	**Benchmark** %
UK equities	38	40
Overseas equities	46	40
Fixed interest	7	10
Property	7	10
Cash and other	2	–
Total	**100**	**100**

Included within the above are £584.8m (2006: £255.0m) of alternative assets, representing 1.95% of total investments.

DISTRIBUTION OF ASSETS

The portfolio distribution as at 31 March 2007, along with the comparative figures for the preceding year, is set out below:

	2007			2006		
	£m	£m	%	£m	£m	%
UK fixed interest						
British Government						
Conventional	250.4			144.7		
Other debentures & loan stocks	2.7			982.7		
		253.1	0.9		1,127.4	4.0
Overseas fixed interest						
North America	489.7			226.3		
Europe	851.8			354.9		
Japan	490.1			218.4		
Far East	100.1			–		
Other	–			–		
		1,931.7	6.4		799.6	2.8
Total fixed interest		2,184.8	7.3		1,927.0	6.8
UK equities						
Resources	1,487.8			1,596.1		
Basic industries	973.7			791.1		
General industrials	844.7			871.5		
Consumer goods	1,053.1			856.8		
Services	3,049.9			2,747.3		
Utilities	487.6			366.9		
Information technology	159.6			120.8		
Financials	3,186.7			2,846.7		
Collective investment schemes	5.7			5.7		
Managed funds	35.1			326.8		
		11,283.9	37.5		10,529.7	37.3
Overseas equities						
America	3,426.0			3,431.6		
Japan	2,548.4			2,890.2		
Europe	4,815.5			4,065.2		
Far East	2,700.5			2,439.5		
Other	392.7			490.0		
		13,883.1	46.2		13,316.5	47.1
Total equities		25,167.0	83.7		23,846.2	84.4
Total securities		27,351.8	91.0		25,773.2	91.2
Property (incl. indirect property)		2,173.6	7.2		2,056.4	7.3
Cash deposits		259.6	0.9		300.1	1.1
Other investment balances		279.2	0.9		116.3	0.4
Total investments		30,064.2	100.0		28,246.0	100.0

Responsible investment

USS Ltd continues to play a leading role in responsible investment (RI) in the UK and overseas. As in the past, the approach towards RI has again been one that focuses primarily on key projects, which maximises the potential impact of RI activities in creating long-term value for the fund. In addition, the fund has also been placing more focus on the integration of extra financial issues into internal investment decision-making.

St Paul House, Redhill.

Since last year's Annual Report, a review of RI activities over the past five years was commissioned and completed. Based upon this review and other inputs, the fund has developed its strategy for the forthcoming five years. The principal findings of the review were that the market-wide activities of the fund had been successful and that more resources should be put into engagement with companies and, particularly, the integration of these issues into investment decision-making processes within the fund. Future activity is therefore focused particularly on reinforcing the fund's commitment in these two areas. To help with the implementation of this, the fund has recruited an additional member to the RI team to support voting, integration and engagement activities, making a team of four.

The fund continues to play an active role in a number of investment relevant initiatives, covering climate change, US Corporate Governance, the pharmaceutical sector, executive remuneration, improving the provision of investment analysis, and long term investing. In addition, USS Ltd actively supports the UN Principles of Responsible Investment, and is represented on the board by a USS board member supported by the RI team. This initiative provides a framework for pension funds and other investors to incorporate extra-financial issues into mainstream investment decision-making and ownership practices. The fund continues to play an active role in the growth and operation of this initiative and participates in both the engagement and governance sub-committees of the board.

Finally, FairPensions, the group which campaigns for the responsible investment of pension funds, ranked USS the best at disclosing details of the fund's RI activities amongst the largest 20 pension funds in the UK, a recognition of the resources and effort the fund puts into this area.

LARGEST EQUITY HOLDINGS

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

	Value £m	%
Royal Dutch Shell	646.0	2.1
BP	599.6	2.0
HSBC Hldg	588.5	2.0
Vodafone Group	468.4	1.6
Glaxosmithkline	456.6	1.5
RBOS	392.5	1.3
Astrazeneca	325.3	1.1
Barclays	306.6	1.0
BHP Billiton	290.8	1.0
Rio Tinto	255.1	0.8
Anglo American	254.5	0.8
HBOS	238.2	0.8
Tesco	228.5	0.8
Lloyds TSB Group	192.8	0.6
BG Group	165.3	0.6
Total	157.6	0.5
BT Group	153.7	0.5
Diageo	153.4	0.5
British American Tobacco	149.7	0.5
ING Groep Certs	149.0	0.5
	6,172.1	20.5

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

Signed on behalf of the investment committee

V Holmes
Chairman

FINANCE & GENERAL PURPOSES COMMITTEE

The finance & general purposes committee was established under the authority of the 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 at 31 March 2007, comprised seven members. Of the committee's seven members, two are UUK appointees to the management committee, two are UCU appointees and three are co-opted appointees of whom one, Professor John Bull, is the chairman. Mr Potts retired on 31 March 2007. We thank him for his significant contribution as a committee member.

During the year, the committee met on five occasions and considered matters such as the Prudential AVC scheme, the results of the scheme funding consultation, age discrimination, cross-border pension activities, expansion of USS, insolvency and withdrawal of institutions from USS, the admission of new institutions to USS, salary sacrifice, corporate performance of USS Ltd, USS Ltd's business plan and the government's pensions reform.

Signed on behalf of the finance & general purposes committee.

Professor John Bull
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 at 31 March 2007 comprised five members; two are UUK appointees to the management committee, two are UCU appointees and one is a co-opted appointee. Dr Christine Challis retired on 30 September 2006 and was succeeded as chairman by Mr Butcher. We are grateful to Dr Challis for her significant contribution to the committee's deliberations. Mr Potts retired on 31 March 2007. We thank him for his significant contribution as a committee member. More than one member of the committee possesses what the Smith Report describes as recent and relevant experience. During the year, the committee met on four occasions. It has also met with the external auditor, the internal auditor and the compliance officer privately each on one occasion without any officers being present. During the year, the committee has, inter alia:

- reviewed the accounts of both the trustee company and the scheme prior to approval by the management committee;
- reviewed its terms of reference;
- reviewed the external auditor's strategy for the audit of the accounts of the trustee company and the scheme;
- reviewed the 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;
- overseen the selection of an independent organisation to undertake a review of the performance of the management committee and sub-committees;
- expressed its continued satisfaction with USS Ltd's approach to identifying and dealing with risks to its business. This includes strengthening its approach by embedding risk management processes in its operational functions.

Signed on behalf of the audit committee.

M Butcher
Chairman

REMUNERATION COMMITTEE

The remuneration committee considers and reports on matters relating to the employment, remuneration and termination of contracts for employees within 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 at 31 March 2007 comprised five members; two are UUK appointees to the management committee, one is a UCU appointee and two are co-opted appointees of whom one, Mr Jacobs, is the chairman. Mr Potts retired on 31 March 2007 and we thank him for his significant contribution as a committee member.

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

- the committee's terms of reference;
- salary awards to employees at the Liverpool and London offices;
- the remuneration and pay scales at the London office;
- London office bonus scheme;
- employment statistics within both the Liverpool and London offices;
- reviewing the corporate risk profile document.

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 2006 Ms G Egan formally replaced Ms C Cheesman and with effect from 1 January 2007 Ms L Newman replaced Mr J Anderson as UCU representatives. Also with effect from 13 October 2006, Mr J Gordon replaced Mr C Morland as a UUK representative.

The committee met on five occasions during the year. Rule changes were considered by the committee which resulted in three amending deeds being executed (the ninth to the eleventh supplemental amending deeds). It should also be noted that the seventh and eighth supplemental amending deeds were executed at the end of March 2006 but which were not included in last year's Report and Accounts, and for completeness the details are included in this report.

These amending deeds introduced the following changes to the USS rules:

- The seventh supplemental amending deed, which was executed on 16 March 2006, made amendments to deal with the withdrawal from USS of a solvent employer, and also to position the scheme as a "last man standing" scheme for the purposes of the Pension Protection Fund.
- The eighth supplemental amending deed, which was also executed on 16 March 2006, brought into effect certain changes relating to the Revenue's tax simplification reforms.
- The ninth supplemental amending deed, executed on 13 September 2006, introduced provisions to ensure that individuals cannot become members of USS if they are 'qualifying persons' under the cross-border regulations, and also made consequential changes as a result of the creation of the new union body, the University and College Union.
- The tenth supplemental amending deed, which was executed on 15 December 2006, introduced further changes relating to the government's tax reforms which came into effect on 6 April 2006.
- The eleventh supplemental amending deed, executed on 7 February 2007, confirms that Universities UK is the representative employer for the purposes of the new scheme funding consultation arrangements.

The committee has continued to consider the various changes necessary as a result of the government's tax simplification reforms, and third-order changes are set to be considered in the coming year (taking into account any further amendments that the Revenue may make in this area).

During the year the trustee company announced a series of proposals to address some of the emerging funding pressures which face the scheme at the present time. Two specific proposals, namely the standardisation of normal pension age at 65 and the introduction of flexible retirement, will require rule amendments, and the joint negotiating committee has begun its consideration of these two important changes for the scheme.

A further significant change which has been under consideration by the committee is the introduction of salary sacrifice for pension contributions. During the year a significant number of institutions expressed an interest in the USS rules being amended to facilitate salary sacrifice for pension contributions, and rule amendments have been considered and prepared, and the enabling provisions will be implemented during 2007.

Finally, on the legislative front, the committee has given detailed consideration to the necessary changes as a result of the introduction of the Employment Equality (Age) Regulations 2006, which came into effect for pension schemes on 1 December 2006. The committee has given detailed consideration to the necessary amendments, and once again these are set to be introduced in the early part of the 2007/08 financial year.

The working party of the JNC dealing with employees who hold regular and variable time employments met on two occasions during the year, and has continued to develop solutions to deal effectively with members who have more than one employment (and in particular where one of those employments is variable time). The working party's activities will continue throughout 2007.

Signed on behalf of the joint negotiating committee

Sir Kenneth Berrill
Chairman

ADVISORY COMMITTEE

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

Three meetings were held during the year. Dr Roger fulfilled the role of chairperson until December 2006 at which time Mr Linfoot 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. There were eight cases which required detailed consideration by the advisory committee during the year. Six cases were related to members requesting full commutation of their benefits on the grounds of serious ill-health and in each case the full commutation was granted. Two cases related to the granting of dependant's pensions and in both cases a dependant's pension was granted.

The committee received updates on other activity in USS relevant to its responsibilities, and where appropriate commented, notably upon the reviews of ill-health retirement and of commutation. The committee reviewed the progress of cases which have proceeded to the Pensions Ombudsman: of 15 cases decided by the Ombudsman since 2001, 13 were not upheld by the Ombudsman, in one case the Ombudsman settled a compensation figure at the request of USS, and in one other case the Ombudsman awarded compensation.

It was necessary for the committee, enlarged by two members of the management committee, to hold one additional meeting during the year to consider the decision given by the pensions operations manager at stage one of the internal dispute resolution procedure. The second stage considerations were as follows:

- Member had complained that he had not been offered the option of an increased pension and a reduced lump sum. The committee agreed to offer the member the opportunity to have his benefits recalculated to put him in the position that he would have been had he chosen an increased pension. Member was also offered an augmentation to his benefits of £500.
- Member complained that she had been offered a partial incapacity pension when she believed she should have been granted a total incapacity pension. The committee did not uphold the member's complaint.
- Member had complained that her institution had not submitted an ill-health application on her behalf even though she was ill at the point when her contract came to an end. The committee upheld the member's complaint and she was ultimately granted an incapacity pension.
- Member had complained that her transfer-in from the NHS had not been calculated on the preferential bulk transfer terms. The committee did not uphold the member's complaint
- Member had complained that he had not been granted an incapacity pension. The committee did not uphold the member's complaint.

Signed on behalf of the advisory committee

A D Linfoot
Chairman

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 fourth year the committee has overseen the Seventh to the Eleventh Supplemental Amending Deeds, further details of which are included in the report from the joint negotiating committee. The committee has also been involved in the following activities:

- To finalise the essential changes to the USS rules necessary as a result of the Revenue's A-day tax simplification exercise and to develop and implement some of the more technical aspects of these reforms, which we refer to as 'second order' changes.
- To ensure that any decisions taken by the trustee company in relation to continuing developments arising from the Pensions Act 2004, for example in relation to the Pension Protection Fund, have been fully informed and researched.
- Consideration of legislation introduced to combat age discrimination (through the Employment Equality (Age) Regulations 2006), which came into force for pension schemes on 1 December 2006, including preparing the necessary rule amendments and raising any relevant points of policy.
- To consider the technical aspects and prepare the necessary rule amendments in relation to salary sacrifice for pension contributions within USS.
- To continue to look at administrative problem areas, and prepare rule amendments in a number of areas to clarify the intention of the rules and, in some cases, to confirm more effective approaches going forward.
- To commence the process of a review of the USS rules.

The committee met on four occasions during the year.

Signed on behalf of the rules committee

H R Jacobs
Chairman

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

1. Introduction

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

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

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

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

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

2. Overview

The key points in the statement are:

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

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

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

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

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

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

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

2.8 The actuary has advised the trustee company that, in determining the scheme funding basis used in the actuarial valuation at 31 March 2005, a cautious approach had been adopted. If the investment return assumption used in the valuation had been increased by 2% to 6 ½% (a relatively mainstream actuarial assumption and one which would still contain an element of prudence) the fund would have been in surplus at that date.

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

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

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

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

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

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

3. Benefits provided by the scheme

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

3.2 An active member may choose to opt out of the scheme and become a deferred pensioner, becoming entitled to a cash equivalent transfer value calculated on the advice of the actuary. This is designed to be equal to a sum of money which could reasonably be expected to be sufficient to provide the benefits given up in the scheme.

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

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

4. Assessing the required contributions

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

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

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

5. Funding position as at 31 March 2005

5.1 The last actuarial valuation of the scheme was carried out as at 31 March 2005. The actuary reported that the contributions required to meet each extra year's accrual of pension amounted to 20.65% of pensionable salary (6.35% of which is contributed by the members and the balance by the sponsoring institutions). This rate of contribution can be adjusted to reflect any surplus or deficit currently in the scheme. At the valuation date the actuary reported a deficit of £6,568.4 million. The assets in the fund amounted to £21,739.7 million and this covered 77% of the accumulated liabilities based on pensionable service to the valuation date and salaries projected through to retirement. It is this measure of coverage of assets against liabilities that the trustee company has adopted as the scheme long-term funding target. The long-term funding and contribution strategy is aimed at delivering 100% coverage on this basis.

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

6. Funding position as at 31 March 2007

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

7. The actuarial assumptions

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

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

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

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

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

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

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

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

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

8. Alternative funding bases

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

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

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

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

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

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

9. What does the valuation shortfall really mean?

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

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

10. Legislative requirements

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

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

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

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

11. Agreed contributions

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

STATEMENT OF INVESTMENT PRINCIPLES

1. Introduction

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

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

1.3 The management committee reviews the statement at least every three years and without delay if there are any significant changes in investment policy or where the trustee company considers that a review is needed for other reasons. The investment committee monitors compliance with this statement at least annually and obtains confirmation from the investment managers that they have exercised their powers of investment with a view to giving effect to the principles contained herein as far as reasonably practicable.

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

2. Investment principles

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

2.2 *The trustee company's investment objective is to achieve returns over the long-term that will meet the liabilities with a stable contribution rate.* Regard is had to the scheme's relative immaturity, strong positive cash flow, the scheme's statutory funding objective, the covenant of the employer, the minimum funding requirement of the Pensions Act 1995, the wishes of the employers and the management committee to minimise the risk of higher contributions at some time in the future and the need to ensure that the risk of deterioration of the funding level, to such an extent as to lead to the need to implement a recovery plan under The Occupational Pensions Schemes (Scheme Funding) Regulations 2005, is acceptable.

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

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

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

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

3. Risk

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

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

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

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

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

4. Diversification of risk

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

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

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

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

5. Strategic investment benchmark and investment management structure

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

5.2 The fund's strategic investment benchmark is a dynamic asset class distribution for the fund's investments. Full details of the fund's current benchmark and divergence limits are set out in the IPID, but the following table provides a summary in broad terms:

UK equities	40%
Overseas equities	40%
Fixed interest (including index-linked)	10%
Property	10%

Investment in alternative assets is accommodated within the allocation to equities. Up to 5% of the fund can currently be invested in alternative assets, with consideration to be given to increasing this to 20% over the medium-term.

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

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

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

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

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

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

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

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

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

6. Responsible investment

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

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

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

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

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

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

7. Additional Voluntary Contribution assets

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

8. Governance

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

8.2 The trustee company established the investment committee under its articles of association, and under the rules of the scheme, to advise it on all questions relating to the investment of the assets of the fund. It consists of between three and eight people of whom at least one must be a member of the management committee and up to five may be persons other than directors whom the management committee may decide to appoint because of their knowledge of and expertise in investment matters. In making its recommendations to the management committee, the investment committee receives advice from its external investment consultants whenever it considers it appropriate. The investment committee implements the management committee's decisions under delegated powers by retaining and monitoring investment managers, performance measurers, custodians and other service providers.

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

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

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

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

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

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

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

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

UNIVERSITY INSTITUTIONS

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
0100	Aberdeen	1,637	626	155
4100	Aston	622	369	125
4300	Bath	1,338	409	77
6600	Belfast	2,017	665	149
1000	Birmingham	2,919	1,096	247
4200	Bradford	914	508	108
1100	Bristol	2,807	816	165
4400	Brunel	975	336	74
7035	Buckingham	79	48	5
1200	Cambridge (University)	4,747	1,083	326
1202	Christ's	19	7	4
1204	Churchill	64	9	–
1206	Clare	17	4	1
1208	Clare Hall	10	1	1
1210	Corpus Christi	43	7	3
1212	Darwin	6	2	2
1214	Downing	43	10	3
1216	Emmanuel	22	6	1
1218	Fitzwilliam	75	7	2
1220	Girton	36	15	3
1222	Gonville & Caius	40	12	3
1224	Hughes Hall	4	2	1
1226	Jesus	12	5	2
1228	King's	64	13	2
1230	Lucy Cavendish	32	7	–
1232	Magdalene	15	7	2
1234	New Hall	62	10	4
1236	Newnham	49	19	4
1238	Pembroke	46	11	–
1240	Peterhouse	19	3	1
1242	Queens'	23	2	1
1245	Robinson	15	9	–
1246	St Catharine's	30	8	1
1255	St Edmund's	15	1	–
1250	St John's	44	9	6

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

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS Pensioner Members	Spouses, Dependants and Dependent Children
1252	Selwyn	24	1	2
1254	Sidney Sussex	48	1	2
1258	Trinity	59	15	6
1260	Trinity Hall	27	7	5
1268	Wolfson	11	3	–
4700	City	1,255	418	107
7016	Cranfield	904	545	107
0700	Dundee	1,656	414	94
1300	Durham (University)	1,763	517	90
1301	St Chad's	4	–	–
1302	St John's	3	1	–
1303	Ushaw College	4	1	–
1500	East Anglia	1,282	479	69
0200	Edinburgh	3,810	1,086	266
1700	Essex	1,165	248	50
1600	Exeter	1,289	565	100
0300	Glasgow	2,718	973	199
0800	Heriot–Watt	822	288	51
1800	Hull	1,063	512	128
3100	Keele	1,051	283	62
1900	Kent	1,180	399	63
2100	Lancaster	1,271	393	87
2000	Leeds	3,474	1,196	273
2200	Leicester	1,479	438	84
2300	Liverpool	2,317	827	200
2497	London (University)	514	653	195
2408	Birkbeck	760	180	32
2401	Goldsmiths College	651	165	12
2480	Heythrop	17	6	–
2409	Imperial Coll of Science, Technology & Medicine	3,057	1,115	277
2440	Institute of Cancer Research	226	25	4
2403	Institute of Education	436	229	47
2410	King's College London	2,781	1,021	221
2412	London School of Economics & Political Science	1,022	259	68
2434	London School of Hygiene & Tropical Medicine	592	113	34

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	PENSIONERS Spouses, Dependants and Dependent Children
2413	Queen Mary & Westfield College	1,545	576	145
2447	Royal Holloway and Bedford New College	763	271	53
2436	Royal Veterinary College	284	59	22
2428	St George's Hospital Medical School	484	91	22
2415	School of Oriental & African Studies	489	200	53
2416	School of Pharmacy	118	33	11
2417	University College	4,603	1,167	239
2484	London Business School	321	43	12
4600	Loughborough	1,553	517	138
2500	Manchester	5,089	1,844	368
1400	Newcastle-upon-Tyne	2,385	828	189
2600	Nottingham	3,078	753	175
8900	Open	6,130	1,818	226
2700	Oxford (University)	4,495	1,277	389
2701	All Souls	30	13	3
2702	Balliol	32	4	5
2703	Brasenose	27	5	3
2704	Christ Church	53	11	5
2705	Corpus Christi	17	6	2
2706	Exeter	26	5	3
2735	Harris Manchester	10	3	–
2707	Hertford	21	9	2
2708	Jesus	26	8	1
2709	Keble	37	5	1
2710	Lady Margaret Hall	24	11	3
2734	Linacre	10	4	–
2711	Lincoln	20	6	3
2712	Magdalen	35	10	6
2732	Mansfield	18	5	1
2713	Merton	41	8	3
2714	New College	47	14	5
2715	Nuffield	32	9	2
2716	Oriel	26	11	–
2717	Pembroke	18	6	4
2718	Queen's	20	10	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	PENSIONERS Spouses, Dependants and Dependent Children
2736	Regent's Park	2	–	–
2719	St Anne's	36	12	1
2720	St Antony's	25	12	1
2737	St Benet's Hall	–	–	–
2721	St Catherine's	35	10	3
2722	St Edmund Hall	14	4	1
2723	St Hilda's	44	17	1
2724	St Hugh's	29	9	1
2725	St John's	45	11	1
2726	St Peter's	22	5	2
2727	Somerville	38	10	–
7028	Templeton	4	20	3
2728	Trinity	16	3	1
2729	University	36	9	5
2730	Wadham	17	7	7
2733	Wolfson	10	5	4
2731	Worcester	25	10	1
2800	Reading	1,759	620	140
0400	St Andrews	1,018	289	66
4800	Salford	1,083	581	115
2900	Sheffield	2,881	849	179
3000	Southampton	2,825	787	133
0500	Stirling	808	275	51
0600	Strathclyde	2,012	640	174
4000	Surrey	1,447	543	92
3200	Sussex	1,057	475	97
6800	Ulster	1,849	488	101
3900	Wales (University)	59	26	4
3300	Aberystwyth	707	313	76
3400	Bangor	828	395	89
3500	Cardiff	2,878	822	206
3800	Lampeter	122	52	15
3600	Swansea	1,284	446	110
5000	Warwick	2,163	454	96
5200	York	1,663	332	70
	Old university institutions total	**116,343**	**37,689**	**8,355**

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	PENSIONERS Spouses, Dependants and Dependent Children
	New universities admitted for limited membership only			
8160	Abertay	3	1	–
8280	Bedfordshire	9	–	–
8420	Bolton	6	–	–
8100	Bournemouth	7	3	–
8080	Brighton	45	1	–
8430	Canterbury Christ Church	7	–	–
8350	Central England	17	–	–
8150	Central Lancashire	21	2	–
8110	Coventry	44	1	1
8060	De Montfort	16	4	–
8010	Glamorgan	16	2	–
8400	Glasgow Caledonian	9	–	–
8440	Gloucestershire	2	–	–
8210	Greenwich	4	–	–
8040	Hertfordshire	4	–	–
8050	Huddersfield	20	1	–
8170	Kingston	7	–	–
8190	Lincoln	35	2	–
8300	Liverpool Hope	4	–	–
8270	Liverpool John Moores	21	–	–
8240	London Metropolitan	29	1	–
8140	Manchester Metropolitan	27	1	–
8460	Northampton	4	–	–
8090	Nottingham Trent	18	6	–
8120	Oxford Brookes	34	–	–
8250	Paisley	2	1	–
8070	Plymouth	48	6	–
8290	Queen Margaret University	10	–	–
8370	Roehampton	23	–	–
8220	Sheffield Hallam	158	1	–
8020	South Bank	35	6	–
8320	Sunderland	12	–	–
8340	Swansea Institute of Higher Education	13	1	–
8330	Teeside	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	PENSIONERS Spouses, Dependants and Dependent Children
8030	Thames Valley	9	4	–
8380	University College Falmouth	5	–	–
8180	University of Wales Institute, Cardiff	18	–	–
8130	Westminster	27	–	–
8410	West of England	15	–	–
8450	Winchester	1	1	–
8390	Wolverhampton	2	–	–
8360	Worcester	3	–	–
	New university institutions total	**792**	**45**	**1**
	All university institutions total	**117,135**	**37,734**	**8,356**

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	PENSIONERS: Spouses, Dependants and Dependent Children
7224	AGCAS	14	–	–
7221	Al-Maktoum Institute	5	–	–
7252	Amaethon Ltd	–	–	–
7010	Animal Health Trust	42	11	1
7080	Arable Group	5	5	1
7040	Arthritis Research Campaign	1	4	–
7275	Arts and Humanities Research Council	1	–	–
7190	Ashridge (Bonar Law Memorial) Trust	206	4	–
7178	Assessment and Qualifications Alliance	19	40	9
7011	Association of Commonwealth Universities	31	36	8
7255	Aston Academy of Life Sciences	5	–	–
7108	Aston Techn Planning & Management Services Ltd	–	–	1
7067	Beatson Institute for Cancer Research	81	4	4
7273	Biochemical Society	1	–	–
7084	BLCMP (Library Services) Ltd	–	5	1
7037	Brewing Research International	35	16	4
7206	Bristol Zoo Gardens	1	–	–
7012	British Glass Manufacturing Confederation	–	8	–
7030	British Institute in Eastern Africa	4	1	–
7091	British Institute of Archaeology at Ankara	2	2	–
7112	British Institute of International & Comp Law	2	1	–
7097	British Psychological Society	1	3	–
7087	British School at Athens	5	2	1
7092	British School at Rome	1	–	–
7033	British School of Archaeology in Iraq	1	–	–
7050	British Universities Sports Association	2	1	–
7122	Burden Neurological Institute	1	2	–
7116	Cambridge Crystallographic Data Centre	42	6	–
7296	Cambridge University Technical Services Ltd	19	–	–
7060	Cancer Research UK	5	10	2
7279	Care Coordination Network UK	1	–	–
7153	CASE (Europe)	4	1	–
7291	Centre for Advanced Software Tech Ltd	6	–	–
7197	Centre for Migration Studies	1	–	–
7015	College of Estate Management	25	34	7
7191	Connect - The Communications Disability Network	16	–	–

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
7110	Council for British Research in the Levant	1	–	–
7265	Council for Christ Col and Universities	3	–	–
7216	Courtauld Institute of Art	59	7	3
7188	Cranfield Aerospace Limited	14	8	–
7251	Cranfield Impact Centre Ltd	–	–	–
7219	Cranfield Innovative Manufacturing Ltd	8	1	–
7288	Crescent Purchasing Ltd	7	–	–
7098	Culham Institute	1	–	–
7145	Dartington Hall Trust	12	1	–
7217	Duke Corporate Education Ltd	8	–	–
7253	East Malling Research	101	1	–
7241	Economic Research Institute of Northern Ireland Ltd	7	–	–
7164	Edinburgh Business School	26	4	–
7032	Edinburgh University Students' Association	58	31	2
7282	Educational Competences Consortium Ltd	3	–	–
7182	EDUSERV	20	4	–
7266	EDUSERV Technologies Ltd	40	–	1
7229	Energy Consortium (Education)	–	2	–
7139	Engineering Development Trust	20	10	–
7299	English Association	–	–	–
7290	Equality Challenge Unit	12	1	–
7257	ESCP-EAP European School of Management	17	1	–
7212	EUSPEN Ltd	2	–	–
7089	Ewing Foundation	3	2	–
7239	Facial Surgery Research Foundation	3	–	–
7283	Florida State University IPA UK	1	–	–
7214	Forum for European Philosophy	–	–	–
7175	Freshwater Biological Association	9	1	–
7041	Geographical Association	7	3	–
7246	Graduate Prospects	–	–	–
7152	Gray Laboratory	22	4	–
7176	HEFCE	1	–	–
7025	Henley Management College	237	48	7
7237	Henley Management College (Trading) Ltd	–	–	–
7230	Heriot-Watt University Students Association	3	–	–
7258	Higher Education Academy	92	–	–

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
7157	Higher Education Careers Service Unit	4	6	–
7186	Higher Education South East	10	–	–
7135	Higher Education Statistics Agency Ltd	18	2	2
7053	History of Parliament Trust	26	5	–
7143	Homerton College	26	3	–
7254	Horticultural Research International Ltd	30	6	–
7170	Hull University Union	11	2	–
7259	INNOS Ltd	10	1	–
7236	Institute for Criminal Policy Research	8	–	–
7029	Institute for Employment Studies	5	11	1
7017	Institute of Development Studies	138	36	8
7056	Institute of Food Science & Technology	2	–	–
7231	Interactive University	6	–	–
7207	International Extension College	–	1	–
7124	International Institute of Biotechnology	1	–	–
7132	International Society (Manchester)	2	1	–
7149	International Students House	3	–	–
7289	JISC Content Procurement Company	8	–	–
7147	JNT Association	90	10	1
7054	Joint Library of Hellenic & Roman Societies	–	1	–
7066	Journal of Endocrinology Ltd	–	1	–
7298	Judge Business School	6	–	–
7189	Kelvin Nanotechnology Ltd	2	–	–
7226	Kidscan Ltd	2	–	–
7240	Leadership Foundation for Higher Education	10	1	–
7177	Learning from Experience Trust	–	–	–
7208	LeNSE Ltd	2	–	–
7271	LHASA Limited	43	–	–
2482	Lister Institute of Preventive Medicine	–	4	4
7247	Liverpool Associates in Tropical Health	–	–	–
7277	Liverpool University Press 2004 Ltd	4	–	–
7168	London Mathematical Society	11	–	–
7179	London School of Jewish Studies	1	2	–
7235	London Universities Purchasing Consortium	3	–	–
7117	Ludwig Inst for Cancer Research - Middlesex Branch	13	5	–
7215	Manchester Medical Society	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
7090	Marie Curie Cancer Care	42	4	4
7125	Marine Biological Association of the United Kingdom	35	–	–
7094	MIRA Ltd	369	57	8
7096	Modern Humanities Research Association	5	1	–
7222	National Centre for Business and Sustainability	2	–	–
7018	National Inst of Economic & Social Research	18	11	3
7268	National Science Learning Centre	30	–	–
7272	Ner Yisrael Educational Trust	2	–	–
7205	North East Wales Institute	7	–	–
7073	Northern College	31	11	2
7270	Northern Consortium	2	–	–
7269	Northern Consortium UK Ltd	4	–	–
7146	Northern Ireland Council for Postgraduate Medical & Dental Education	4	2	–
7115	Northern Ireland Economic Research Centre	–	1	4
7048	Numerical Algorithms Group Ltd	42	12	2
7292	Nuffield Health & Social Services Fund	4	–	–
7301	Nuinto Limited	–	–	–
7183	NYU in London	9	–	–
7242	The Office for the Independent Adjudicator for Higher Education	11	–	–
7209	Open College Network Anglia	4	1	–
7284	Open College Network Eastern Region	12	–	–
7260	Open University Children's Centre	16	–	–
7261	Open University Student's Association	17	2	–
7058	Open University Worldwide	49	12	–
7023	Overseas Development Institute	64	12	–
7174	Oxford Cambridge & RSA Examinations	180	22	2
7031	Oxford Centre for Hebrew & Jewish Studies	11	1	1
7118	Oxford Centre for Islamic Studies	8	1	–
7297	Oxford Colleges Admissions Office	–	–	–
7163	Oxford Policy Institute	1	–	–
7287	Oxford Said Business School	5	–	–
7104	Pain Relief Foundation	1	–	–
7243	Picker Institute Europe	1	–	–
7075	Policy Studies Institute	36	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	PENSIONERS Spouses, Dependants and Dependent Children
7162	Quality Assurance Agency	58	15	3
7264	Queen Victoria Blond McIndoe Research Foundation	6	–	–
7234	Rambert School of Ballet and Contemporary Dance	5	–	–
7052	Reading University Students Union	–	1	–
7203	Regional Studies Association	3	–	–
7156	Regulatory Policy Institute	1	–	–
7238	Rhodes Trust	3	–	–
7123	Richmond College	41	9	–
7185	Royal Academy of Dance	1	–	–
7160	Royal Academy of Music	2	–	–
7218	Royal Agricultural College	1	–	–
7181	Royal College of Music	2	–	–
7081	Royal College of Paediatrics and Child Health	4	1	–
7020	Royal College of Surgeons of England	145	31	15
7021	Royal Geographical Society	2	3	1
7077	Royal Institution	13	5	1
7158	Royal Northern College of Music	5	–	–
7064	Royal Society	–	–	–
707[illegible]	Royal Society of Edinburgh	3	2	–
7022	Ruskin College	47	24	6
7294	Sainsbury Centre for Mental Health	5	–	–
7300	Sarah Lawrence at Oxford	–	–	–
7105	School Mathematics Project	2	4	–
7130	Scottish Association for Marine Science	82	2	2
7232	Scottish Further Education	1	–	–
7262	Shared Care Network	8	–	–
7196	Sheffield University Enterprises Ltd	4	–	–
7199	Smith Institute	10	–	–
7274	Society for Experimental Biology	4	–	–
7169	Society of Antiquaries of London	9	2	–
7131	Southern Universities Management Services	13	4	–
7180	Standing Conference of Principals Ltd	4	–	–
7220	Stockholm Environment Institute	4	–	–
7042	Strangeways Research Laboratory	10	12	2
7187	Technology Innovation Centre	2	–	–
7134	The Prince's Foundation	1	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	PENSIONERS Spouses, Dependants and Dependent Children
7138	Thrombosis Research Institute	13	2	–
7109	Trade Union Research Unit Ltd	–	1	–
7173	Trinity College of Music	44	4	–
7263	UC (Suffolk) Ltd	19	–	–
7293	UCL BIO MEDICA PLC	20	–	–
7204	UHI Millenium Institute	9	–	–
7250	UK Biobank Ltd	23	–	–
7210	UKCOSA	15	1	–
7285	UK Socrates-Erasmus Council	12	–	–
7166	UMIST Ventures Ltd	3	–	–
7106	Universities and Colleges Admissions Service	19	17	6
7150	Universities and Colleges Employers Association	9	1	–
7121	Universities UK	44	9	2
7295	University and College Union	170	–	–
7184	University Council for the Education of Teachers	2	1	–
7171	University of the Arts London	14	1	–
7049	University of Leicester Student's Union	1	3	1
7256	University of Sheffield Union of Students	7	–	–
7202	University of Wales, Newport	2	–	–
9999	USS Ltd	155	36	8
7227	Warren House Group at Dartington	15	–	–
7065	Wildfowl & Wetlands Trust	2	9	2
7286	William Gates Building	2	–	–
7148	Witan Hall (incorp Gyosei International College in the UK)	4	8	1
7142	WP Management Ltd	5	1	–
7027	York Archaeological Trust	3	2	–
7223	York Health Economics Consortium Ltd	6	–	–
7195	Yorkshire Universities	15	1	–
7280	Young Foundation	9	8	–
7076	Zoological Society of London	38	10	1
–	Withdrawn institutions	–	111	31
	Non-university institutions total	**4,082**	**932**	**180**
	All institutions total	**121,217***	**38,666**	**8,536**

*Included in this figure (but counted once only) are 2,267 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 2007

Members		University Institutions	Non-University Institutions	Totals
Total members at 1 April 2006		111,897	3,732	115,629
New members		18,796	607	19,403
Retirements	- Ill-health	88	3	91
	- Other	1,793	75	1,868
Deaths		82	2	84
Leavers and withdrawals	- Refunds	1,684	77	1,761
	- Deferred/undecided	9,173	361	9,534
	- Retrospective*	446	31	477
Total members at 31 March 2007		117,427	3,790	121,217

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

In addition USS Ltd was notified during the year of 3,392 employees who became eligible to join the scheme but elected not to do so.

Pensioner Members	University Institutions	Non-University Institutions	Totals
Total pensioners at 1 April 2006	35,709	833	36,542
Mergers	–	–	–
New pensioners	2,792	119	2,911
Deaths	771	16	787
Total pensioners at 31 March 2007	37,730	936	38,666

In addition at 31 March 2007, there were 7,647 pensions being paid to spouses and dependants and 889 annuities being paid to dependent children. Deferred pensioners not yet receiving a pension totalled 70,725.

Ex-spouse participants

At 31 March 2007, 298 ex-spouse participants have benefits within the scheme in their own right as a result of pension sharing, of whom 61 are now in receipt of their pension and are included in the pensioner member summary above.

FUND ACCOUNT for the year ended 31 March 2007

	Note	2007 £m	2006 £m
Contributions and Benefits			
Contributions receivable	3	942.9	842.1
Premature retirement scheme receipts		28.2	25.9
Transfers in	4	142.5	145.8
		1,113.6	1,013.8
Benefits payable	5	896.4	789.8
Payments on account of leavers	6	44.5	38.0
Administration costs	7	12.9	11.8
		953.8	839.6
Net additions from dealings with members		159.8	174.2
Returns on investments			
Investment income	8	813.9	686.9
Change in market value of investments	9	887.0	5,722.2
Investment management expenses	10	(25.2)	(20.7)
Net returns on investments		1,675.7	6,388.4
Net increase in the fund during the year		1,835.5	6,562.6
Fund at start of year		28,302.3	21,739.7
Fund at end of year		30,137.8	28,302.3

The notes on pages 59 to 65 form part of these financial statements.

STATEMENT OF NET ASSETS as at 31 March 2007

	Note	2007 £m	2006 £m
Investments			
Securities	12	27,019.7	25,163.2
Pooled investment vehicles securities	13	332.1	610.0
Pooled investment vehicles property	13	1,011.0	1,014.1
Property	14	1,162.6	1,042.3
Cash deposits		259.6	300.1
Other investment balances	15	279.2	116.3
		30,064.2	28,246.0
Net current assets	16	73.6	56.3
Total net assets, representing the fund balance		30,137.8	28,302.3

The financial statements on pages 57 to 65 were approved by the trustee, Universities Superannuation Scheme Limited, on 26 July 2007 and were signed on its behalf by:

Martin Harris
Chairman

T H Merchant
Chief Executive

The notes on pages 59 to 65 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2007

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 when compared to the scheme as a whole. 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 71 and 72 and these financial statements should be read in conjunction with them.

2. Accounting Policies

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

Contributions & Benefits

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

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

Investment income

Investment income is brought into account on the following bases:

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

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

(c) Property rental income, as it accrues;

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

Property

A completed property is one that has received an architect's certificate of practical completion and which is substantially let. If a property has a certificate of completion but is not substantially let, it is included as a completed property, provided it is outside the period of contractors' liability for defects and no further building works are expected. Developments in progress include any property which is not a completed property.

Rates of exchange
Assets and liabilities denominated in overseas currencies are translated into sterling at the rates of exchange ruling at the balance sheet date and any exchange movements on translation are included in the fund account as part of the change in market value of investments.

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

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

The current values are as follows:

(a) Quoted Securities	–	at closing prices; these prices may be last trade prices or mid market prices depending on the convention of the stock exchange on which they are quoted;
(b) Property	–	on the basis of open market value;
(c) Pooled investment vehicles	–	at unit prices or values based on the market valuation of the underlying assets.

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

3. Contributions

	2007 £m	2006 £m
Main section		
Employers' contributions	611.6	554.4
Members' basic contributions	263.2	238.6
Members' additional voluntary contributions	52.8	35.3
	927.6	828.3
Supplementary section		
Members' contributions	15.3	13.8
	942.9	842.1

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:

	2007 £m	2006 £m
Value at the start of the year	195.1	175.2
Contributions from members	32.8	19.7
Transfers in	2.6	2.5
Income from interest and bonuses	9.7	7.7
Payouts to members	(19.9)	(10.0)
Value at the end of the year	220.3	195.1

4. Transfers in

	2007 £m	2006 £m
Individual transfers in	122.6	141.5
Group transfers in	19.9	4.3
	142.5	145.8

5. Benefits payable

	2007 £m	2006 £m
Main section		
Pensions	694.6	653.8
Lump sums on or after retirement	180.3	115.7
Lump sums on death in service	12.1	11.5
	887.0	781.0
Supplementary section		
Pensions	8.9	8.4
Lump sums on or after retirement	0.5	0.2
Lump sums on death in service	–	0.2
	9.4	8.8
	896.4	789.8

6. Payments on account of leavers

	2007 £m	2006 £m
Individual transfers to other schemes	40.8	34.6
Payments for members joining state scheme	1.6	1.5
Refunds to members leaving service	2.1	1.9
	44.5	38.0

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

	2007 £m	2006 £m
Dividends from UK equities	373.0	298.3
Net property income	44.2	78.7
Income from pooled investment vehicles	33.9	2.6
Dividends from overseas equities	257.2	207.1
Income from UK fixed interest securities	7.9	57.8
Income from overseas fixed interest securities	73.1	23.2
Interest on cash deposits	12.2	10.7
Other income	12.4	8.5
	813.9	686.9

9. Change in market value of investments

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

	Market value 2006 £m	Purchases during the year at cost £m	Proceeds of sales during the year £m	Changes in value during the year £m	Market value 2007 £m
Securities	25,163.2	16,455.0	(15,217.9)	619.4	27,019.7
Pooled investment vehicles - securities	610.0	158.3	(437.2)	1.0	332.1
Pooled investment vehicles - property	1,014.1	216.6	(280.8)	61.1	1,011.0
Property	1,042.3	21.6	(11.1)	109.8	1,162.6
Cash deposits	300.1	–	(136.2)	95.7	259.6
	28,129.7	16,851.5	(16,083.2)	887.0	29,785.0
Other investment balances	116.3				279.2
Total	28,246.0				30,064.2

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

Within cash deposits at 31 March 2007 are £4,892.7m of forward currency assets together with related liabilities of £4,923.5m. Forward currency transactions have been used to hedge part of the currency risk relating to overseas fixed interest and equity investments.

10. Investment management expenses

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

11. Taxation

UK tax

USS is a registered pension scheme for tax purposes and is therefore not normally liable to income tax on income from investments directly held, nor to capital gains tax arising from the disposal of such investments.

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Overseas tax

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

12. Securities

	2007 £m	2006 £m
Quoted		
UK equities	11,243.1	10,197.2
Overseas equities	13,591.8	13,039.0
UK fixed interest - public sector quoted	250.4	144.7
UK fixed interest - other	2.7	982.7
Overseas fixed interest - public sector quoted	1,907.2	779.0
Overseas fixed interest - other	24.5	20.6
	27,019.7	25,163.2

13. Pooled investment vehicles

	2007 £m	2006 £m
Securities		
Managed funds	318.0	334.7
Unit trusts	14.1	275.3
	332.1	610.0
Property		
Unit trusts	807.4	896.3
Property companies	2.7	6.2
Limited partnerships	200.9	111.6
	1,011.0	1,014.1
	1,343.1	1,624.1

14. Property

	2007 £m	2006 £m
UK completed properties	1,093.0	976.0
UK developments in progress	69.6	66.3
	1,162.6	1,042.3
Properties analysed by type:		
Freehold	1,022.2	912.4
Leasehold	140.4	129.9
	1,162.6	1,042.3

The completed properties and developments in progress have been valued on the basis of market value as at 31 March 2007 and 31 March 2006 for accounts purposes by Drivers Jonas acting as independent valuers. The valuations have been undertaken in accordance with the RICS Appraisal & Valuation Standards.

15. Other investment balances

	2007 £m	2006 £m
Amount due to stockbrokers	(164.4)	(180.0)
Amount due from stockbrokers	296.9	160.9
Dividends and accrued interest	146.7	135.4
	279.2	116.3

16. Net current assets

	2007 £m	2006 £m
Current assets		
Contributions due from institutions:		
- employers' contributions	60.3	55.6
- members' basic contributions	23.6	21.1
- members' additional voluntary contributions	2.9	2.1
Other debtors	14.7	15.4
Cash at bank and in hand	22.4	9.8
	123.9	104.0
Current liabilities		
Rents & service charges received in advance	10.8	10.8
Property revenue expenses payable	1.5	0.7
Amount due on property purchases	3.0	3.1
Benefits payable	22.2	23.6
Taxation creditor	0.1	1.5
Other creditors	2.8	0.8
Due to USS Ltd	9.9	7.2
	50.3	47.7
	73.6	56.3

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 £1.4m (2006: £5.2m) in respect of certain benefits for early leavers which have been underpaid. These had been calculated based on the scheme's normal retirement age but, following a ruling by the High Court, it has now been established that they should have been calculated based on each individual's contracted retirement age.

17. Securities on loan

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

	2007 £m	2006 £m
Value of stock on loan at 31 March	3,549.4	3,455.0
Value of collateral held at 31 March	4,633.4	3,609.7

18. Financial commitments

	2007 £m	2006 £m
Property		
Contracts placed but not provided for	76.2	108.1
Securities		
Forward commitments for unpaid calls on securities and underwriting contracts	–	11.9
Alternative investments		
Outstanding commitments to private equity partnerships	505.9	–

19. Self investment

The scheme had no employer related investments during the year.

20. Related party transactions

The only related party transactions are between the scheme and its trustee company and certain employees of the trustee company through their membership of the Scheme. The trustee company provides administration services, the cost of which includes directors' emoluments as detailed in note 5 of the trustee company accounts, and investment management services to the scheme, charging £12.9 million and £25.2 million respectively, with a balance due from the scheme of £9.9 million as at 31 March 2007.

STATEMENT OF TRUSTEE'S RESPONSIBILITIES for the financial statements

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

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

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

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

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

Signed on behalf of the trustee on 26 July 2007

Martin Harris
Chairman

T H Merchant
Chief Executive

STATEMENT OF TRUSTEE'S RESPONSIBILITIES in respect of contributions

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

Trustee's summary of contributions payable under the schedule in respect of the scheme year ended 31 March 2007

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

Contributions payable under the schedule in respect of the scheme year

	£m
Employer	
Normal contributions	610.0
Special contributions	1.4
Additional contributions	28.4
Member	
Normal contributions	276.0
Additional contributions	2.5
Contributions payable under the schedule (as reported on by the scheme auditor)	918.3

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	918.3
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)	52.8
Total contributions (including premature retirement scheme receipts) reported in the financial statements	971.1

In addition to the total contributions reported in the financial statements, there were £32.8m 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 26 July 2007

Martin Harris
Chairman

T H Merchant
Chief Executive

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

We have audited the financial statements of the Universities Superannuation Scheme for the year ended 31 March 2007 which comprise the fund account, the net assets statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the scheme trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the scheme trustee those matters we are required to state to it 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 trustee for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustee and auditors

As described in the Statement of trustee's responsibilities on page 66, the scheme trustee is responsible for obtaining an annual report, including audited financial statements prepared in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements:

- show a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial transactions of the scheme during the scheme year ended 31 March 2007 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

26 July 2007

INDEPENDENT AUDITORS' STATEMENT ABOUT CONTRIBUTIONS

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

We have examined the summary of contributions payable under the schedule of contributions to the Universities Superannuation Scheme in respect of the scheme year ended 31 March 2007, which is set out on page 67.

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

Respective responsibilities of trustee and auditors

As described on page 67, the scheme's trustee is responsible, under the Pensions Act 2004, for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions which sets out the rates and due dates of certain contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme. The trustee has a general responsibility for procuring that contributions are made to the scheme in accordance with the schedule of contributions.

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

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

Basis of statement about contributions

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

Statement about contributions payable under the schedule

In our opinion contributions for the scheme year ended 31 March 2007 as reported in the summary of contributions and payable under the schedule have in all material respects been paid at least in accordance with the schedule of contributions certified by the actuary on 31 January 2006.

KPMG LLP
Chartered Accountants
Registered Auditor

26 July 2007

ACTUARIAL STATEMENT

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

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

1. Compliance with minimum funding requirement

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

2. Valuation principles

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

Mercer Human Resource Consulting Limited
Manchester M2 4DW
December 2005

E S Topper
Fellow of the Institute of Actuaries

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

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

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

1. Security of prospective rights

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

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

Description of contributions

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

Subject to review at future actuarial valuations.

2. Summary of methods and assumptions used

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

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

Mercer Human Resource Consulting Limited
Manchester M2 4DW
December 2005

E S Topper
Fellow of the Institute of Actuaries

FIVE YEAR SUMMARY - FUND ACCOUNTS for years ended 31 March

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Contributions and benefits					
Contributions	943	842	784	698	661
PRS receipts	28	26	32	36	40
Transfers in	143	146	230	110	115
	1,114	1,014	1,046	844	816
Benefits payable					
Pensions	704	662	615	562	524
Lump sums	193	128	127	122	121
Transfers out	42	36	56	43	41
Refunds	2	2	2	2	2
	941	828	800	729	688
Investment income (net of investment management costs)	789	666	572	542	541
Administration costs of the trustee (excluding investment management costs)	12.9	11.8	9.1	9.3	7.6
Changes in value of investments	887	5,722	1,485	3,215	(5,036)
Investments of the fund (restated) (at current values) at 31 March					
Securities	27,020	25,163	19,037	16,876	12,914
Pooled investment vehicles	1,343	1,624	559	539	477
Property	1,163	1,043	1,702	1,553	1,650
Life assurance policies	–	–	–	4	15
Cash deposits	259	300	281	350	396
Other investment balances	279	116	105	88	86
	30,064	28,246	21,684	19,410	15,538

Membership numbers at 31 March	2007	2006	2005	2004	2003
Contributing members	121,200	115,600	110,000	103,100	98,400
Pensioners	47,200	44,700	42,200	39,200	37,000
Deferred pensioners	70,700	66,100	62,700	56,700	51,400
	239,100	226,400	214,900	199,000	186,800

REPORT OF THE DIRECTORS for the year ended 31 March 2007

The directors submit their report and the accounts for the year ended 31 March 2007.

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 £38,066,000 this amount being recoverable from USS. This compares with £32,462,000 for the year ended 31 March 2006 and represents a 9% increase in administration costs and a 22% increase in investment management costs.

The decision by the internally managed fund from June 2006 to pay for stockbrokers' research costs separately, with execution carried out on a commission basis, has resulted in an increase in investment costs compared to last year of £5,261,000. This unbundling of commission payments means that the majority of the internally managed fund's research costs, previously payable as part of stockbrokers' commission and included in the book cost of the fund's assets in the USS financial statements, are now recognised as a charge in the accounts of USS Ltd. They are not, therefore, new costs, although they appear in the accounts of USS Ltd for the first time.

The move to paying for research separately makes the cost of running the fund more transparent and reduces costs to the fund overall. The reduction in payments by certain stockbrokers for equipment and services for USS Ltd for investment management purposes, which ceased at the same time as unbundling was introduced, has also resulted in an increase in investment costs compared to last year. This, again, does not represent an increase in costs to the fund overall as it results in reduced commission rates payable through the fund.

Fees paid to the fund's external managers are considerably less than in the previous year due to a change in the way that performance fees are to be paid to one of the managers, Capital Partners. Performance fees payable to Capital Partners in any year are restricted in the investment management contract and can be considerably less than the fees earned in the year. Fees earned in the year to 31 March 2006 were provided for in full in the accounts but, following a change in the way the assets are managed, fees payable after June 2008 will be recognised through the accounts of USS and have not been provided for in these accounts.

The bulk of the increase in administration costs relates to the increase in the Pension Protection Fund (PPF) levy which was paid for the first time last year. The increase is partly due to the increase in the number of members in USS but mainly results from the increase in the levy rate calculated by the PPF. Increased staffing, in line with the demanding systems development workload being undertaken in Liverpool, has also contributed to the increase in costs.

Considerable time is being spent by staff in the Liverpool office across all departments in seeking to implement the new pensions administration software UPM2 from Civica. The previous version of the software has been in place since 2000 and the new system will capitalise on the technological advances since then to improve the effectiveness of operations in Liverpool. Implementation is scheduled for January 2008. Work has also commenced during the year on plans to enhance the USS website and create a secure intranet and extranet, taking advantage of the capabilities of UPM2, which was designed with web applications in mind.

The London office is building an alternative investments team and the team has been working during the year to implement the fund's strategy of increasing its exposure to alternative investments. These investments involve additional administrative effort for both offices and staff are planning to implement systems to support their administration and provide more effective capabilities for monitoring and control.

During the year the trustee company carried out a review of the funding of the scheme, in consultation with the participating employers, to determine whether an increase in the contribution rate should be made in advance of the next valuation at 31 March 2008. As a result of the review, the trustee company introduced a charge, payable by the employers, for the actuarial cost of providing unreduced benefits on early retirements below the age of 60 and has proposed an increase in the retirement age for all new entrants to age 65 which is being considered by the USS joint negotiating committee. The introduction of the early retirement charge has eased any immediate pressure on the future service contribution rate, and as a result the employer contribution rate remained unchanged and will next be reviewed as part of the actuarial valuation of the scheme at 31 March 2008.

Fixed assets

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

Directors

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

Sir Martin Harris, *chairman*
Professor John Bull, *deputy chairman*
M G Butcher
Professor Sir Ivor Crewe
Professor David Eastwood (from 1.1.07)
S Egan (to 31.12.06)
D Guppy
Mrs V Holmes
H R Jacobs
Lady Merrison
M S Potts
Professor Charles Sutcliffe
Baroness Warwick of Undercliffe

Statement of Directors' Responsibilities

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

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

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

Disclosure of information to auditors

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

Auditors

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

By order of the board

I M Sherlock
Company Secretary

26 July 2007

STATEMENT OF OPERATING COSTS for the year ended 31 March 2007

	Note	2007 £000	2006 £000
Personnel costs			
Employees' emoluments	4	8,794	8,067
Directors' emoluments and expenses	5	455	427
Recruitment, training and welfare		585	433
		9,834	8,927
Premises costs			
Rent, rates, service charges and utilities		1,745	1,568
Depreciation and maintenance		292	286
		2,037	1,854
Investment costs			
Securities management	6	7,834	10,357
Securities research costs	7	5,261	–
Property management		1,800	1,608
Custodial services		1,423	1,396
Legal costs - property management		425	521
- securities management		209	103
Property valuation		128	124
Investment performance measurement		90	79
Costs met by third parties	8	(22)	(11)
		17,148	14,177
Other costs			
Pension Protection Fund levy		3,142	2,551
Computer and information services costs	9	2,545	2,499
Professional fees	10	1,647	1,480
Travel and car costs		596	510
Office equipment		285	281
Telephones and postage		229	298
Institution liaison and member communication		213	309
Printing and stationery		169	185
Pension Protection Fund - general levy		137	–
Pension Protection Fund - admin levy		133	–
Insurances		133	144
Sundry expenditure		67	54
FSA membership		63	61
Auditors' remuneration	11	55	53
(Profit)/loss on disposal of fixed assets		4	(23)
Pensions Regulator Levy		–	133
Costs met by third parties	8	(371)	(1,031)
		9,047	7,504
Total operating costs	13	38,066	32,462

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 80 to 88 form part of these financial statements.

BALANCE SHEET as at 31 March 2007

	Note	2007 £000	2006 £000
Assets			
Fixed assets			
Tangible fixed assets	14	980	1,204
Current assets			
Debtors	15	12,339	8,126
Cash at bank and in hand		2	3
		12,341	8,129
Total assets		13,321	9,333
Liabilities			
Creditors – amounts falling due within one year	16	13,321	9,333
Total liabilities		13,321	9,333

The notes on pages 80 to 88 form part of these financial statements.

The financial statements on pages 77 to 88 were approved by the board of directors on 26 July 2007 and were signed on its behalf by:

Martin Harris
Chairman

John Bull
Deputy Chairman

CASH FLOW STATEMENT for the year ended 31 March 2007

	Note	2007 £000	2006 £000
Operating activities			
Cash received from USS		35,333	28,713
Operating costs paid	17	(34,901)	(28,332)
Net cash inflow from operating activities		432	381
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(465)	(457)
Sale of tangible fixed assets		32	76
		(433)	(381)
(Decrease)/Increase in cash		(1)	–

The notes on pages 80 to 88 form part of these financial statements.

NOTES TO THE ACCOUNTS for the year ended 31 March 2007

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

4. Employees' emoluments

	2007	2006
The average weekly number of persons employed by the company during the year (excluding directors) was	178	173
Staff costs for the above persons were:	£000	£000
Wages and salaries	7,234	6,508
Pension costs (superannuation contributions)	823	723
Social security costs (national insurance contributions)	720	637
Restructuring costs	17	199
	8,794	8,067

Emoluments of the chief executive	2007 £000	2006 £000
T H Merchant	229	218

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 £31,853 (2006: £14,784).

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

	2007	2006
£70,001 - £80,000	1	5
£80,001 - £90,000	4	6
£90,001 - £100,000	5	3
£100,001 - £110,000	3	2
£110,001 - £120,000	4	2
£120,001 - £130,000	1	5
£130,001 - £140,000	3	1
£140,001 - £150,000	1	1
£160,001 - £170,000	1	–
£170,001 - £180,000	1	1
£190,001 - £200,000	1	–
£210,001 - £220,000	1	–
£250,001 - £260,000	1	–
£340,001 - £350,000	–	1
£390,001 - £400,000	–	1
£440,001 - £450,000	1	–

The salary figures above include bonus payments for the investment staff, totalling £1,097,165 (2006: £751,269). Both the bonus scheme and the annual outcome are reviewed by the remuneration committee.

5. Directors' emoluments and expenses

	2007 £000	2006 £000
Fees	382	371
Employer's costs – national insurance contributions	40	40
Expenses	33	16
	455	427

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 2007 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:

	2007 £000	2006 £000
Sir Martin Harris *(chairman)*	53	31
H R Jacobs	57	71
Professor John Bull *(deputy chairman)*	46	32
Mrs V Holmes	45	18
M S Potts	30	30
Lady Merrison	30	25
Professor Charles Sutcliffe	27	27
M G Butcher	27	13
Baroness Warwick of Undercliffe	24	24
D Guppy	19	11
Professor Sir Ivor Crewe	12	–
S Egan	9	2
Professor David Eastwood	3	–
Sir Graeme Davies	–	45
A S Bell	–	16
J W D Trythall	–	16
Sir Howard Newby	–	10
	382	371

6. Securities management

	2007 £000	2006 £000
External manager base fees	7,817	7,674
External manager performance fees	(149)	2,338
Professional fees	166	345
	7,834	10,357

Performance fees of £2,338,000 were accrued for Capital Partners, one of the external fund managers, at 31 March 2006. During the year ended 31 March 2007 performance fees of £611,000 were paid, the amount payable in any year being restricted in the investment management contract. A further payment of performance fees of £1,578,000 is expected to be made in the year to 31 March 2008 and is included in creditors. In July 2007, Capital Partners (3) Foreign Investors Fund was formed which took over the bulk of the assets previously managed by Capital Partners. USS is a limited partner in this partnership and the value of that investment shown in the USS accounts will reflect deductions made by the partnership for performance and base fees. The balance of the 2006 performance fees and performance fees for 2007 will not now be payable by USS Ltd and so £149,000 has been written back.

7. Securities research costs

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

8. Costs met by third parties

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

9. Computer and information services costs

	2007 £000	2006 £000
Investment information services	1,279	1,154
Computer running costs	667	622
Investment accounting services	278	260
Software depreciation	233	312
Hardware depreciation	73	129
Computer bureau fees	15	22
	2,545	2,499

10. Professional fees

	2007 £000	2006 £000
Actuarial	797	791
Legal	516	376
Committee members (other than directors)	113	111
Taxation	95	57
Member medicals	43	50
Public relations	18	17
Salary surveys	1	19
Other	64	59
	1,647	1,480

11. Auditors' remuneration

	2007 £000	2006 £000
USS	50	48
USS Ltd	5	5
	55	53

Remuneration of the company's auditors (KPMG LLP) for provision of services other than for the audit of USS and USS Ltd was £2,500 for tracing overseas pensioner members (2006: £3,500 for advice on taxation and £4,000 for actuarial training).

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

	2007 £000	2006 £000
Investment management costs		
Investment costs	17,148	14,177
Personnel costs	4,655	4,085
Premises costs	1,188	1,119
Other costs	2,167	1,279
	25,158	20,660
Other administration costs		
Personnel costs	5,179	4,842
Premises costs	849	735
Other costs	6,880	6,225
	12,908	11,802
	38,066	32,462

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

Included in operating costs is a charge for depreciation of £653,000 (2006: £789,000) as set out in note 14.

All of the operating costs are recoverable from USS, which at 31 March 2007 had total assets in excess of £30 billion.

14. Tangible fixed assets

	Alterations to rented premises £000	Computer equipment £000	Computer software £000	Office equipment £000	Motor cars £000	Total £000
Cost						
At 1 April 2006	2,105	1,777	2,169	1,529	373	7,953
Additions	21	83	258	59	44	465
Disposals	–	–	–	–	(87)	(87)
At 31 March 2007	2,126	1,860	2,427	1,588	330	8,331
Accumulated Depreciation						
At 1 April 2006	1,871	1,671	1,847	1,212	148	6,749
Charge for year	164	73	233	98	85	653
Disposals	–	–	–	–	(51)	(51)
At 31 March 2007	2,035	1,744	2,080	1,310	182	7,351
Net Book Value						
31 March 2007	91	116	347	278	148	980
Net Book Value						
31 March 2006	234	106	322	317	225	1,204

15. Debtors

	2007 £000	2006 £000
Due from USS	9,910	7,177
Prepayments	2,402	922
Other debtors	27	27
	12,339	8,126

16. Creditors - amounts falling due within one year

	2007 £000	2006 £000
Accrued expenditure	7,023	5,606
Other creditors	5,531	3,122
Taxation and social security	767	605
	13,321	9,333

17. Reconciliation of operating costs paid

	2007 £000	2006 £000
Operating costs - recoverable from USS	38,066	32,462
Increase in creditors	(3,988)	(3,393)
Profit/(Loss) on sale of tangible fixed assets	(4)	23
Depreciation	(653)	(789)
Increase in debtors (excluding USS)	1,480	29
Operating costs paid	34,901	28,332

18. Operating lease commitments

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

	2007 £000	2006 £000
Less than one year	5	10
Between two and five years	18	13
Over five years	1,253	1,211

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

The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

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

Standard mortality tables were used as follows:

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

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

Males 19.8 years
Females 22.8 years

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

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

Since 31 March 2005 the financial security of the scheme has improved and the actuary has estimated that the funding level has increased from 77% at 31 March 2005 to 91% at 31 March 2007. This improvement in the scheme's financial security is due primarily to the investment return on the scheme's assets since 31 March 2005 being higher than allowed for in the funding assumptions. On the FRS17 basis, the actuary estimated that the funding level at 31 March 2007 was above 109% and on a buy-out basis was approximately 84%.

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

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

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

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

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities.

Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

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

The total pension cost for the company was £822,791 (2006: £723,034). 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 £12.9 million and £25.2 million respectively, with a balance due from the scheme of £9.9 million at 31 March 2007.

21. Special purpose companies

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

INDEPENDENT AUDITORS' REPORT

to the members of Universities Superannuation Scheme Limited

We have audited the financial statements of Universities Superannuation Scheme Limited for the year ended 31 March 2007 which comprise the Statement of Operating Costs, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 75, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its result for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP
Chartered Accountants
Registered Auditor

26 July 2007

NOTES

Sir Martin Harris
Chairman

CHAIRMEN OF PRINCIPAL SUB-COMMITTEES

Virginia Holmes
Investment Committee

Professor John Bull
Finance & General Purposes Committee

Michael Butcher
Audit Committee

Howard Jacobs
Remuneration and Rules Committees

Sir Kenneth Berrill
Joint Negotiating Committee

Denis Linfoot
Advisory Committee

PRINCIPAL OFFICERS

Brendan Mulkern
Pensions Policy Manager

Bernadine Steventon
Pensions Operations Manager

Peter Moon
Chief Investment Officer

Iain Hall
Head of IT

Tom Merchant
Chief Executive

Colin Busby
Communications Manager

Ian Sherlock
Company Secretary

Colin Hunter
Chief Financial Officer

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