USS

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

Report & Accounts

for the year ended 31 March 2009

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 2009 of over £21 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
(Universities Superannuation Scheme Limited) at Companies House is 1167127

The reference number of the scheme
(Universities Superannuation Scheme) at the Pensions Registry Office is 100201003

USS

Contents

Management Statement

Martin Harris
Chairman

Tom Merchant
Chief Executive

The year to 31 March 2009 has been a difficult and challenging year for USS and indeed for all pension schemes.

The global financial crisis in 2008 saw stock markets fall to the levels of five years ago and the fund's investments fell by 27% in 2008 and continued to fall to 31 March 2009, although there has been some recovery since. The results of the actuarial valuation as at 31 March 2008 were announced early in 2009 and confirmed what many in the sector had feared, that the cost of providing USS benefits is rising.

Scheme membership continued to grow during the year with total membership increasing by 4.5% to 264,100 at 31 March 2009. This is an increase of 33% in the last five years. In the past year the scheme's active membership increased by 5.5% from 126,400 to 133,400, the number of pensioners by 4.2% from 49,900 to 52,000 and the number of deferred pensioners by 3% from 76,400 to 78,700.

Staff in Liverpool have been working during the year on a major initiative, *e*Pensions, which is intended to streamline the way we do business and result in considerable long term cost savings, a better service to members and institutions and improved quality of data. The first phase of the initiative was the launch of the new website which was completed in June 2009, and this will be followed in 2009/10 by a secure extranet section of the website to be known as *USS Online*. This will provide institutions with access to view member records from our pensions administration system, UPM2, and calculators that use member data drawn from individual member records. In addition, administrators at institutions will be able to submit data to USS online. Later phases of the project will see the interface between institutional users developed further with straight-through processing that will obviate the need for repeated data processing by USS staff. The cost of this initiative, in terms of both external and internal resources, is not insignificant but the board believes that the potential future cost savings and improvements in service and data quality more than justify the initial outlays.

Another major project which ran throughout the business year was the re-write of the scheme rules, aimed at delivering a new version of the rules in a more intelligible style, importantly without changing any of the substance of the scheme's provisions. The exercise was overseen by the rules committee, and the final re-written version of the rules was agreed by the board at its meeting in March 2009, coming into effect on 1 May 2009.

The performance of the fund's assets is measured on a calendar year basis with the year to 31 December 2008 being a year of very poor returns for USS and pension funds generally. The fund fell by 27.2% against the benchmark fall of 25.7%. Over the past five years the fund has returned 3.1% per annum against a benchmark return of 4.0% and, over 10 years, 2.3% against a benchmark of 3.3%. The total value of the fund fell from £32.6 billion at the end of December 2007 to £23.1 billion at the end of December 2008. Further adverse market movements reduced this value to £21.4 billion by 31 March 2009 (excluding the money purchase AVC assets managed by Prudential).

The results of the valuation of the scheme as at 31 March 2008 revealed that, under the new scheme-specific funding regime introduced by the Pensions Act 2004, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's liabilities measured on a prudent basis (referred to as "technical provisions" under the new regime) was £28,135.3 million, indicating a surplus of £707.3 million. The assets therefore were sufficient to cover 103% 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. On the scheme's historic gilts basis, which uses more conservative assumptions, the funding level was approximately 71%; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 107% funded; and using the FRS17 formula (as if USS were a single employer scheme) the actuary estimated that the funding level at 31 March 2008 was 104%.

Management Statement

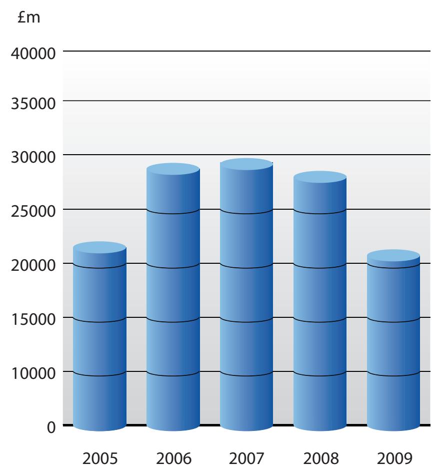
The overall contribution rate required for future service benefits alone at the date of the valuation was 22.35% of pensionable salaries and the trustee company, on the advice of the actuary, increased the institution contribution rate to 16% of pensionable salaries from 1 October 2009, with the employees' contribution rate remaining at 6.35% of pensionable salary (the employee contribution rate being specified in the rules).

Since 31 March 2008, with the continuing fall in global investment markets, the actuary has estimated that as at 31 March 2009 the funding level under the new scheme specific funding regime had fallen from 103% to 74%, and on the scheme's historic basis, from 71% to 51%.

The various funding levels quoted above have improved somewhat after 31 March 2009 following increases in investment markets, but the board is fully aware of the funding pressures on the scheme. USS is a long-term investor and the fund continues to enjoy a positive cashflow with the aggregate of contributions and investment income exceeding benefit payments, something that is expected to continue for many years. Nevertheless, short term falls in the funding level which result in the scheme being underfunded on its technical provisions increase the likelihood that the board will, at some point, require additional contributions to fund the deficit, over and above the current contribution rate. The employers and the trade union are currently in discussions on the future funding of the scheme and the board is fully supportive of their efforts to ensure that USS remains attractive and affordable.

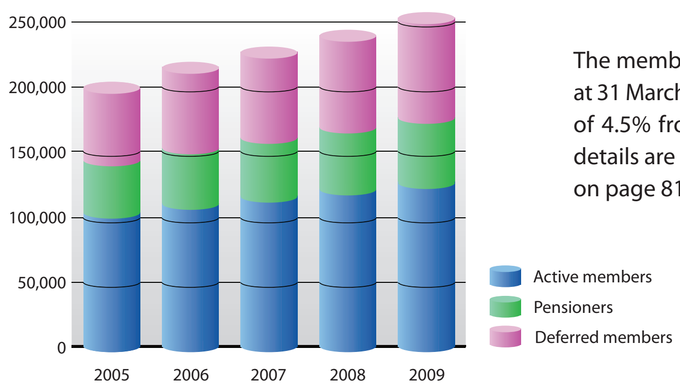
Summary of Year

Fund



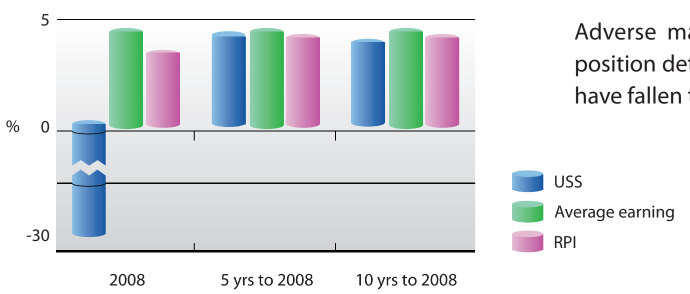
The fund's investments have fallen to £21.4 billion as at 31 March 2009 from £28.9 billion as at 31 March 2008. More details are given in the investment committee report on page 9 and in the five year summary of the fund accounts on page 81.

Membership



The membership of the scheme continues to grow steadily. As at 31 March 2009 the total membership was 264,100 an increase of 4.5% from last year and 22.9% from four years ago. More details are given in the five year summary of the fund accounts on page 81.

Performance



Adverse market movements in 2008 have seen the fund's position deteriorate. As a result, the 5 year and 10 year returns have fallen to close to RPI and slightly below average earnings.

Principal Officers and Advisers

The principal officers and advisers of the trustee company at 1 August 2009 are:

Chief Executive
T H Merchant
Chief Investment Officer
P G Moon
Chief Financial Officer
C S Hunter
Pensions Policy Manager
B J Mulkern
Pensions Operations Manager
B Steventon
Company Secretary
I M Sherlock
Communications Manager
C G Busby
Chief Administrative Officer
A R Little

Actuary
E S Topper of Mercer, Clarence House, Clarence Street, Manchester M2 4DW
Solicitors
DLA Piper, India Buildings, Liverpool L2 0NH
Auditors
KPMG LLP, 1 The Embankment, Leeds, LS1 4DW
Bankers
Barclays Bank plc, 7th Floor, 1 Marsden Street, Manchester, M2 1HW

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

Solicitors
Lawrence Graham
Investment managers
Capital International Limited
Investment consultants
Mercer
Custodians
JP Morgan plc
Bank of New York Mellon
Investment performance measurement
Investment Property Databank Limited, HSBC
Property advisors
Jones Lang LaSalle
DTZ
King Sturge
Property managers
Jones Lang LaSalle
Workman
King Sturge
Property valuer
Drivas Jonas

Computer software
Civica plc
Morse Limited
GSL Limited
Strategic Systems Solutions (SSS)
Transmedia Gateway Limited (tmg)
Website design
Anthony Hodges Consulting Ltd
Computer hardware
Hewlett Packard PLC
Data recovery
Hewlett Packard PLC
Insurers
AIG
AXA
Zurich
Norwich Union
Allianz
Internal Audit
Deloitte

The trustee of Universities Superannuation Scheme is the trustee company, Universities Superannuation Scheme Limited, which is appointed under USS rule 59.1. The statutory power of appointing new trustees applies provided that a new trustee may not be appointed without the approval of the joint negotiating committee.

The trustee company is also the administrator of the scheme for the purposes of the 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 2009 of the principal committees was as follows:

Board

Appointed by Universities UK (UUK)

Sir Martin Harris (Chairman), D McDonnell, Sir Muir Russell, Baroness Warwick of Undercliffe

Appointed by the University and College Union (UCU)

J Devlin, D Guppy, Lady Merrison

Appointed by the Higher Education Funding Councils (HEFCs)

Professor David Eastwood

Co-opted

Professor John Bull, M Butcher, V Holmes, H R Jacobs

Finance & Policy Committee

Appointed by the board

Professor John Bull (Chairman), D Guppy, V Holmes, H R Jacobs, Lady Merrison, Baroness Warwick of Undercliffe, T H Merchant, C S Hunter, P G Moon, B J Mulkern

Investment Committee

Appointed by the board

V Holmes (Chairman), G Allen, Professor John Bull, A Docherty, A Gulliford, Sir Martin Harris, H R Jacobs, Lady Merrison

Audit Committee

Appointed by the board

M Butcher (Chairman), Professor John Bull, J Devlin, D McDonnell, Lady Merrison

Remuneration Committee

Appointed by the board

H R Jacobs (Chairman), M Butcher, D McDonnell, Lady Merrison, Baroness Warwick of Undercliffe

Rules Committee

Appointed by the board

H R Jacobs (Chairman), A D Linfoot, J W D Trythall

Advisory Committee

Appointed by UUK

Dr A Bruce, A D Linfoot, C Vidgeon

Appointed by UCU

Dr A Roger (Chair), J Guild, T Hoad

Nominations Committee

Appointed by the board

Professor John Bull (Chairman), D Guppy, Sir Martin Harris, Baroness Warwick of Undercliffe

Joint Negotiating Committee

Independent Chairman

Sir Andrew Cubie

Appointed by UUK

Dr A Bruce, I Crawford, A D Linfoot, Dr J Nicholls, C Vidgeon

Appointed by UCU

A Carr, G Egan, Dr T McKnight, Dr A Roger, J W D Trythall

Board Members

Sir Martin Harris, Chairman

Martin Harris (65) is President of Clare Hall Cambridge and has been a director of Universities Superannuation Scheme Limited 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.

Professor John Bull CBE

Professor Bull (69) 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. From 2002 to 2008 he was chairman of Devon and Cornwall Learning and Skills Council and also of Dartington College of Arts. Since 2002 he has been chairman of the Plymouth Hospitals NHS Trust.

Michael Butcher

Michael Butcher (62) became a co-opted member of the board on 1 November 2004 having retired from IBM where he held a variety of technical, sales and marketing positions in UK and Europe, latterly as Tivoli European Marketing Director. He is a member of the audit committee at Loughborough University and continues to take an active interest in the effective use of IT.

Lady Merrison

Lady Merrison (70) was appointed the second pensioner director of USS in October 2003. 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.

David Guppy

Dave Guppy (65) worked in the computing service at University College London from 1979 to 2009. 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 is a member of the national executive committee of the University and College Union. He was appointed a director of USS in 2005 and re-appointed in 2008.

Baroness Warwick of Undercliffe

Diana Warwick (64) was appointed chief executive of Universities UK (UUK) in 1995. Previously she had been for three years Chief Executive of the Westminster Foundation for Democracy and from 1983 to 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 amember of the TUC General Council between 1989 and 1992. She has honorary degrees from Bradford, Open and London Universities.

Sir Muir Russell KCB, DL, FRSE

Sir Muir Russell (60) became Principal of the University of Glasgow in October 2003. During his term as Principal he has served on the boards of UCAS and UUK and has been the Convener of Universities, Scotland. He was elected as a fellow of the Royal Society of Edinburgh in 2000 and holds honorary degrees from the University of Strathclyde and the University of Glasgow. He was appointed a Deputy Lieutenant of the City of Glasgow in 2004 and became an Honorary Fellow of the Royal College of Physicians and Surgeons of Glasgow in 2005.

Howard Jacobs

Howard Jacobs (56) 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.

David McDonnell

David McDonnell (66) 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 memeber 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 is High Sherriff of Merseyside 2009-2010. He was appointed Director of USS in April 2007.

Virginia Holmes

Virginia Holmes (49) 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 Claverhouse Investment Trust, non-executive director of Standard Life Investment Limited and non-executive director and chair of the investment committee of the Alberta Investment Management Corporation in Canada. She became a director of USS in September 2005.

Professor David Eastwood

Professor David Eastwood (50) became Vice-Chancellor of Birmingham in April 2009. Former posts include Chief Executive of HEFCE, Vice-Chancellor of the University of East Anglia (UEA) and Chief Executive of the Arts and Humanities Research Board. Before that 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 a 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 of the UEA in 2006.

Joseph Devlin

Joe Devlin (49) has been the Open University's Pensions Manager since 1998, having previously worked over a number of years in the private sector in the areas of actuarial, pension consultancy and administration. He has tutored for the Pensions Management Institute and International Employee Benefits Examinations. He was appointed a UCU nominated director of USS in September 2007.

Board Report

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

Directors

There were no changes to the membership of the board during the year.

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 board. 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. 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. The trustee company's directors normally serve a three-year term but are eligible for reappointment. The board has decided that co-opted directors should 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).

Bromley by Bow

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.

Trustee training

The board and the principal committees have an individual skills requirement matrix, which identifies the knowledge areas and levels of knowledge within each area, expected for members of the board and each committee. The committee chairmen review the skills matrix for their committee each year, assess the members of the committee against the skills matrix and make appropriate recommendations for individual or committee training to the nominations committee. Where appropriate, training sessions have been (and will continue to be) arranged for individuals or groups of committee members to bridge any identified gaps.

Each director completes an annual training record, listing all training undertaken in the year, and these are reviewed by the nominations committee, which makes recommendations on training for both committees and individual directors.

The board held a number of education and training sessions throughout the year, the majority of which this year covered topics relating to the actuarial valuation.

Responsibilities of the management and the executive

The trustee company and the scheme are controlled through the trustee company's board of directors, which meets at least five times a year. The board's primary 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 board include:

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

The board has delegated the following responsibilities to the chief executive and the trustee company's executive:

- managing the trustee company against plans and budgets;
- the development and recommendation of strategic plans for consideration by the board;
- implementation of strategies and policies established by the board and exercise of trustee company discretion in the determination and payment of benefits; and
- day-to-day investment decisions, including stock selection and asset allocation decisions (within bands approved by the board), which 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 board in the determination of its strategy and in the achievement of its objectives. The chairman is responsible for organising the business of the board, 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 executive 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 board 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 those investment managers who have external mandates that are not included in the portfolios managed by the London Investment Office. He reports on these matters to the investment committee.

Board and committee meetings

The number of full board 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.

	Board (7)	Investment (7)	F&PC* (5)	Audit (4)	Remuneration (2)	Rules (6)	Nominations (3)
Sir Martin Harris	7	6	-	-	-	-	3
Professor John Bull	7	7	5	4	-	-	3
Michael Butcher	7	-	-	4	2	-	-
Joe Devlin	7	-	-	4	-	-	-
Professor David Eastwood	7	-	-	-	-	-	-
Dave Guppy	7	-	5	-	-	-	3
Virginia Holmes	6	7	4	-	-	-	-
Howard Jacobs	7	7	4	-	2	6	-
David McDonnell	6	-	-	3	2	-	-
Lady Merrison	6	6	5	4	2	-	-
Sir Muir Russell	7	-	-	-	-	-	-
Baroness Warwick	7	-	4	-	2	-	3

* *The July 2008 F&PC meeting was attended by five of the six directors who are not members of the F&PC and the September 2008 F&PC meeting was attended by the six directors who are not members of the F&PC to discuss the results of the actuarial valuation.*

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

Institutions

At 31 March 2009 there were 395 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 255 other institutions.

Changes in institutions participating occurred as follows:
New participating institutions:
Edge Hill University*
Macrobert Arts Centre Ltd*
The Russell Group
Northumbria University*
The English Association*

Institutions which ceased to participate:
Henley Management College
Henley Management College (Trading) Ltd
Interactive University
Journal of Endocrinology
Liverpool Associates in Tropical Health
Scottish Further Education Unit

* restricted membership

Scheme membership

During the year 23,718 new members joined the scheme and at 31 March 2009 the total membership, including pensioners and those entitled to deferred benefits, was 264,100 compared with 252,700 a year earlier. Further details of the changes in membership during the year are contained in the section "Membership Statistics" on page 43 and over the five years ended 31 March 2009 in the Summary on page 81.

The proportion of eligible new employees of participating institutions choosing not to join USS was 17% compared with 16% last year.

The wider review of pensions in the higher education sector

During the year the board has continued to monitor the developments with the Employers' Pensions Forum, a group established by Universities UK, the Universities and Colleges Employers' Association and Guild HE within which employer representatives are considering pension provision in the higher education sector.

The most significant development has been the creation of a Joint Review Group (JRG) to undertake a review of USS. The JRG comprises representatives from the Employers' Pensions Forum (representing the scheme's employers) and UCU (representing scheme members). The group commenced its work in September 2008 and is constituted as a sub-group of the Joint Negotiating Committee. The Group is chaired by Sir Andrew Cubie, and met on six occasions during the year. Discussions are set to continue into 2009.

The board recognises the extremely important task that is being undertaken by the JRG, which brings together the key stakeholders to consider the future sustainability of the scheme, and has continued to offer its full support to the group, in terms of provision of data and scheme information, as it makes its deliberations.

Employer debt and approved withdrawal arrangements

There has continued to be significant activity in the area of employer debt, in part due to changes made to the governing regulations, which apply to cessation events occurring on or after 6 April 2008. These changes allow greater flexibility for trustees of defined benefits schemes, such as USS, in dealing with section 75 debts triggered by institutions ceasing to employ active members in USS, and there are now a number of possible arrangements through which a debt may be modified or deferred. As a result of this increased flexibility, a working group of the finance & policy committee was established towards the end of the year to develop a framework to assist in progressing individual employer debt scenarios.

A number of cases have arisen in the area of employer debt during the year, which predominantly involve smaller participating institutions, and, where appropriate, the board has considered applications from leaving institutions to enter into an arrangement to modify the statutory debt. One larger scale case related to the merger between the University of Reading and Henley Management College. Taking all the circumstances into account the board agreed, in this case, to modify the statutory debt under a withdrawal arrangement under the employer debt regulations.

Expansion and flexibility

The board has continued to operate its expansion policy during the year, and a number of institutions have expressed an interest in merging their own internal pension arrangements with USS. No applications have actually proceeded to completion during the year, however there are one or two candidates that are expected to do so towards the middle of 2009. In the light of the completion of the actuarial valuation, the board has confirmed its intention to review the terms upon which institutions can merge their pension arrangements with USS, and the outcome of this review is expected later in 2009.

On the issue of flexibility, the board has continued to operate its policy of permitting individuals to remain in their former (support staff) pension scheme where they are re-designated into USS-eligible posts as a result of the implementation of the pay framework exercise. The exercise has largely been completed during the year, but there have been a small number of residual issues to deal with on the issue of eligibility for USS arising out of the pay framework.

The government's pensions reform and other legislative changes

The board has continued to monitor government legislation throughout the year and, as mentioned above, has reacted to new regulations issued on employer debt. The government has also indicated its intention to issue regulations dealing with (i) the commutation of trivial pensions and (ii) payment of pensions to children over age 23 who are still in full time education, and the board has offered its views in consultations on these issues. The final details on these two legislative changes are expected later in 2009.

A further development during the year has been the consultation by the board of the Pension Protection Fund (PPF) on the future of the risk-based levy. The consultation proposes major changes to the way in which the levy will be assessed, most notably the PPF's intention to take into account in levy calculations what it refers to as "investment risk". The board is concerned about the proposals, as it believes that they will result in USS paying a future levy that is entirely disproportionate to the risk that USS presents to the PPF (ie the likelihood of the scheme's employers becoming insolvent). The board will continue to make representations on this issue.

New regulations were issued in October 2008 requiring trustees of occupational pension schemes to review the factors used in the calculation of transfer values, and requiring them to decide the assumptions underlying these calculations (rather than having these assumptions largely decided by actuarial guidance). The board received advice from the scheme actuary on this issue and decided its new approach, and these arrangements were put into place from 1 April 2009.

Re-write of the USS rules

At the start of the year the board decided, following a recommendation of the rules committee, that it would be appropriate to re-write the scheme rules. A project was started which ran throughout the business year to deliver a new version of the rules in a more intelligible style, importantly without changing any of the substance of the scheme's provisions. The exercise was overseen by the rules committee, and the final re-written version of the rules was agreed by the board at its meeting in March 2009, coming into effect on 1 May 2009.

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 3.9 % on 21 April 2008.

On 21 April 2009 USS pensions that satisfied certain qualifying conditions and began before 22 April 2008 were increased by 5.0% with smaller increases applying for pensions that began after that date. Deferred pensions and deferred lump sums were increased by the same rate.

That part of the pension payable from the main section of USS which represents the pre-1988 GMP is generally not increased by USS as increases are paid by the Department for Work 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.uss.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 2008 and 31 March 2009 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 last full actuarial valuation of the scheme was carried out as at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004. The new regulations require schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions (ie the scheme's liabilities measured on a "scheme-specific" basis).

The valuation revealed that, at the valuation date, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The full text of the actuary's report has been published and copies were sent to all institutions in March 2009. It is also available on the USS website.

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 (ie the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared with the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

The actuary examined the mortality experience of active members and pensioners and the board accepted his recommendation that the mortality assumptions used in the valuation should be changed to reflect the improving longevity of USS members and pensioners. Use of these revised assumptions reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further improvements in mortality rates.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts), the funding level was approximately 71%. The deficit on this basis was £11,776.6 million, of which £11,865 million was in respect of the main section, offset by a surplus of £88.4 million in respect of the supplementary section. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 107% funded; on a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% 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, using a AA bond discount rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset outperformance over gilts of 1.7% per annum (compared with 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance for promotional salary increases was not as high. There is currently uncertainty in the sector regarding pay growth. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and, while a cautionary reserve has been included when calculating the past service liabilities of the scheme, as referred to above, the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience

The institution contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, agreed to increase the institution contribution rate to 16% of pensionable salaries from 1 October 2009, with the employees' contribution rate remaining at 6.35% of pensionable salary.

Since 31 March 2008 global investment markets have continued to fall and at 31 March 2009 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 74%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the year and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions). On the scheme's historic basis the actuary estimated that the funding level at 31 March 2008 was 51% while on the FRS17 basis, using a AA bond discount rate of 7.1% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2009 was 86%. An estimate of the funding level measured on a buy-out basis at that date was approximately 46%.

The various funding levels quoted above improved somewhat after 31 March 2009 following increases in investment markets but the board is fully aware of the funding pressures on the scheme. USS is a long-term investor and the fund continues to enjoy a positive cashflow with the aggregate of contributions and investment income exceeding benefit payments, something that is expected to continue for many years. Nevertheless, short term falls in the funding level which result in the scheme being underfunded on its technical provisions increase the likelihood that the board would need to impose deficit contributions on employers over and above the current contribution rate. The employers and the unions are currently in discussions on the future of the scheme, as discussed above, and the board is fully supportive of their efforts to ensure that USS remains attractive and affordable.

Further information on the funding of the scheme is given in the trustee's funding statement on page 83.

Accounting matters

Scheme financial statements and summary of contributions

The financial statements of the scheme for the year ended 31 March 2009 are set out on pages 60 to 75; and the auditors' statement about contributions and trustee's summary of contributions are set out on pages 76 and 80. 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 90 to 109 and show an increase in operating costs from £40.6 million in 2007/2008 to £44.6 million in 2008/2009. This represents a 14% increase in administration costs and a 7% increase in investment management costs.

Personnel costs increased in both Liverpool and London. In Liverpool, there have been staff increases in IT in particular, much of it temporary and related to the *e*Pensions initiative, as well as to the further development of our new pensions administration system. There has also been a strengthening of the management team in pensions department, additional staff in pensions policy and communications departments, and additional staff recruited in the investment accounts section as a result of the increased investment in alternative assets.

In London, staff numbers increased from 44 at the start of the year to 57 at 31 March 2009. Much of the increase related to the continued build up of the alternatives investment team, with new recruits to the private equity team and a hedge fund manager, together with an in-house lawyer. The property and responsible investment teams were also strengthened and a head of risk appointed to monitor and report on investment risk across all the internally managed portfolios.

The other main increase in costs in Liverpool was in professional fees. Actuarial costs were increased partly because this was the year of the triennial actuarial valuation. This was the first valuation carried out under the new scheme specific funding regulations and involved the trustee company and the actuary in a greater degree of formal consultation with the employers than in previous valuations. Legal costs have also increased, with the primary reason being the successful completion during the year of a major exercise to rewrite the scheme rules. Both the actuary and solicitor have also been involved in providing information to the joint review group of employer and member representatives who have been reviewing possible future options for USS to ensure it remains attractive and affordable. A further increase in professional fees has been the involvement of Deloitte in providing internal audit services to the trustee company, firstly through the temporary secondment of a head of internal audit and subsequently through the operation of a co-source arrangement whereby Deloitte carried out internal audit work in the areas of IT and investments, reporting to the newly appointed head of internal audit. Deloitte also provided assistance in refining our approach to risk management.

Further details regarding the operating costs and a review of the activities for the year are given in the Directors' Report & Accounts on page 90.

Investment policy

The arrangements for management and custody of the assets, together with the approximate proportion managed by each manager at 31 March 2009 , were as follows:

(a) 79.5% was managed internally by the trustee company's London Investment Office (with JP Morgan as custodian), of which 62.9% were securities assets (or cash), 10.3% were alternative assets and 6.3% were property assets. Of the 10.3% of alternative assets, 0.6% is managed by State Street Global Advisers, a hedge fund replicator. The internally managed fund has a balanced mandate;

(b) 9.0% was managed by Capital International Limited (with Bank of New York Mellon as custodian) with a global equity mandate;

(c) 11.5% 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);

The year to 31 December 2008 was a particularly difficult year for investment markets generally, and the fund also suffered a significant decline, returning -27.2% compared to its benchmark return of -25.7%. Prior to 2008, the fund had enjoyed five years of positive returns since the previous downturn. 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 board receives reports, generally on a quarterly basis, from the main committees: the finance & policy committee, the investment committee, the audit committee, the remuneration committee, the rules committee, the joint negotiating committee, the nominations committee and the advisory committee. The functions of these committees are set out in the reports that follow this report.

Internal audit within the trustee company comprises the head of internal audit and two assistants supplemented by a co-source arrangement for specialist investment and IT audits. It reviews the operation of the internal control systems affecting the trustee company and the scheme and, where relevant, 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 has established a risk committee which meets quarterly to consider regular reports on non-investment risk. Non-investment risk is reported via the finance and policy committee to the board. Investment risk is reported via the investment committee to the board. These committees review 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 (assisted by the external auditor) 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 that comply with the Turnbull Guidance in the Combined Code on Corporate Governance where relevant.

The board, 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 Liverpool in December 2008 with a report of the proceedings available on the USS website.

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

During the year there were two late payments of contributions arising from administrative errors at institutions, both of which were subsequently submitted within four days of the due date. There was no requirement to report these 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 the trustee company 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

Great Cambridge Retail Park, Enfield

the decision. The review is undertaken by the advisory committee, augmented for this purpose alone by two members of the board (one nominated by UUK and the other by UCU). The augmented advisory committee met on four occasions to consider the decisions given by the pensions operations manager at stage one of the internal dispute resolution procedure. Nine cases were considered and the stage one decisions taken by the pensions operations manager were upheld in eight cases. In the remaining case 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.

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

After the implementation of the new system at the end of 2008 a post implementation project was launched to develop a number of additional processes and to make refinements to the new system. The upgrade to UPM2 provides an opportunity to enhance our website to include functionality for certain benefit quotations to be carried out on-line. We have also been working with institution users to understand how we can maximise use of the technology available to improve service levels and data quality. A great deal of work has been carried out on the new website which was launched early in June 2009.

Communications

The programme of presentations to members included 42 institution visits, addressing approximately 4,900 members. Feedback from attendees continues to be very positive with many members interested in the increased flexibilities available for paying additional voluntary contributions and increasing interest about potential changes to the scheme.

During the year the communications team has been heavily involved in developing the new USS website. This has involved developing the new look and feel for the website as well as revising the content. The existing website has been maintained throughout the year and two new Pensions TV programmes were filmed for inclusion.

The institution advisory panels continued to meet during the year. There are currently 25 institutions represented on the panels, which provide valuable feedback on proposed changes and new procedures.

Seminars for institution staff continue with positive feedback received during the year. Future seminar dates have been issued with interest already running high.

The pensioner newsletter 'InTouch' was issued with the distribution of pensioner payslips in April.

Service statements are issued to members on an annual basis. Work has been completed during the year on new calculation specifications in order that statements can be run in 2009. The new specification is required as we are now running with the new UPM2 administration system.

During the year publications have been reviewed where needed to comply with legislation and rule changes. The Members' Annual Report was also issued in October.

Prudential are our provider for the money purchase AVC facility and we continue to work closely with them to ensure that our members receive unbiased information on both added years and money purchase AVCs. During the year we have reviewed taped recordings of individual meetings held between members and Prudential representatives and provided training to Prudential staff regarding scheme developments. Additionally, Prudential representatives often attend the USS presentations to members.

*e*Pensions

The *e*Pensions initiative is a major change for USS in the way we receive and send information about members to institutions and ultimately to members themselves. At the heart of the initiative is the new website that has been developed to provide an interface with our administration system UPM2. This will allow authorised users to view members' data held by USS, make amendments to that data and carry out basic benefit quotation calculations.

The first phase has been to create a new internet website, which holds non-secure data about USS and is accessible to anybody who is interested in USS. The new website went live in June 2009 and users will readily see that the design of the website has been improved to make it easier to find information about the scheme. The next phase is to create a secure extranet section of the website for institution users, which will be known as USS Online. This section will replace the eManual and will provide access to all the administration forms used by institutions. It will also provide institution users with the facility to view the data held by USS in respect of their employees and will replace webaccess.

USS Online will be rolled out to institutions in a phased way, starting with a small number of pilot institutions towards the end of 2009, with a full roll-out to be completed during 2010. This phase will improve the security of the current arrangements and will provide a platform for the next phase, which will see the development of straight-through processing that obviates the need for reprocessing of data submitted to USS by institution users. This will improve the accuracy of the data held on the member database as well as improving efficiency of processing.

Subsequent phases will see the introduction of online services for members and pensioners who register for USS Online. We will also be able to offer those who register the option of receiving information from USS electronically, which will help us to continue to manage our print and postage costs.

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 board 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 that 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 board.

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

- 2008 was a particularly challenging year for the world financial system with a near systemic collapse in September following the bankruptcy of Lehman Brothers and the government rescues of amongst others AIG, Fannie Mae, Freddie Mac, RBS and HBOS. This resulted in the worst year for equity markets since 1974 and similarly poor returns in many other asset classes including corporate bonds, hedge funds, private equity and property. Even some money market funds, until now considered as safe as cash, "broke the dollar" and returned less than $1 for every $1 invested. The only asset class to escape this collapse was government bonds which benefited from a flight to safety.
- In 2008 the fund fell by 27.2% against the benchmark fall of 25.7%. This very disappointing outcome has impacted adversely the 5 and 10 year performance figures, with the fund returning 3.1% per annum against a benchmark return of 4% over 5 years and 2.3% against a benchmark of 3.3% over 10 years. The total value of the fund fell from £32.6 billion at the end of December 2007 to £23.1 billion at the end of December 2008. Further negative market movements had reduced this value to £21.4 billion by 31 March 2009 (excluding the money purchase AVC assets managed by Prudential).

Ben Levenstein & Christopher Scott, UK Equities Team
London Investment Office

- The fund continued its move into alternative assets which now account for 9.3% of the total portfolio, embracing a wide spectrum of alternative assets including private equity, absolute return and commodities. During 2009, it has accelerated its diversification into this area to take advantage of attractively priced opportunities arising out of the credit crisis.
- Significant additional resourcing has been added at the London Investment Office (LIO) to enable it to carry out a more complex job as alternative asset investment develops. This has included the appointment of a head of risk and quantitative analysis and a general counsel (investments) and further additional resources have been recruited onto the alternative assets team to enable costs to be saved over the longer term.
- The triennial asset liability study was carried out during the year and this has prompted the board to consider the introduction of a dynamic strategic asset allocation policy which would enable the fund to respond more actively to changes in asset prices and the liability profile of the fund. Further work is currently being undertaken by the investment committee to enable a recommendation to be made to the board in the autumn of 2009.
- The fund continues to play a leading role in responsible investment in the UK and overseas. It has been involved in a number of collaborative projects with the aim of bringing about better corporate governance and a better understanding and assessment of environmental and sustainability issues.

Investment Management

The fund's investments are divided among those under the direct control of the trustee company and those managed externally.The in-house team at the LIO manages the majority of the assets. Within the alternative assets portfolio the fund employs a number of external managers and funds who are selected and monitored by the LIO. 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. The balance of the fund in 2008 was managed by Capital International under a specialist global equity mandate and rewarded on an ad valorem and performance fee basis.

The investment advisory and property management contracts with DTZ and Jones Lang LaSalle were competitively retendered in 2008 and the following appointments were made:

Investment Advisory

Retail and Leisure	Jones Lang LaSalle
Offices and International Indirects	DTZ Investment Management
Industrial	King Sturge

Property Management

Shopping Centres and High Street	Jones Lang LaSalle
Retail Parks and Foodstores and Offices	Workman & Partners
Industrial	King Sturge

USS investment performance results

Overall in 2008 the fund fell 27.2% against the benchmark fall of 25.7%. Of the 1.5% of underperformance in 2008, 2.6% can be attributed to negative stock selection, whilst asset allocation decisions added 1.1% to performance. USS's policy of hedging the majority of its foreign exchange exposure to reduce the risk of not being able to pay its liabilities, which are in sterling, contributed to the underperformance. Significant distortions to performance were caused by the rapid and substantial coincident falls in sterling and equity markets.

Despite reducing the risk to the portfolio, currency hedging resulted in a significant opportunity cost to the fund. During the last four months of 2008 sterling fell 27% against the dollar and suffered even greater falls against the yen and the euro which led to significant losses on the fund's foreign exchange hedges. Although these losses were offset by the rise in the sterling value of the fund's overseas assets, had the fund been un-hedged it would have benefited from a windfall gain from sterling's depreciation.

The performance of the various fund managers for the year to 31 December 2008 is shown below:

	% Fund Return	% Benchmark Return
LIO (including property)	-27.0	-24.7
UK Index	-29.8	-29.9
Capital International	-21.8	-19.7
Total Fund	-27.2	-25.7

The active managers of the fund, LIO and Capital International, both underperformed their benchmarks in 2008 with the LIO 2.3% behind its benchmark with a return of -27.0% against a benchmark return of -24.7% and Capital International showing a relative return of -2.1% with a fall of 21.8% against a benchmark return of -19.7%. The UK All Share Index Fund performed in line with its index, falling 29.8% against a fall of 29.9% in the FTSE All Share.

Of the 1.5% underperformance versus its benchmark suffered by the fund, 1.3% was attributable to LIO and 0.2% attributable to Capital International. Capital ran a smaller percentage of the USS assets than LIO, thus reducing Capital's impact on the total fund return.

Equity markets continued to fall during the first quarter of 2009 with developed markets reaching a trough in March. They have since recovered and most are now showing positive year to date returns. Higher risk asset classes have outperformed as liquidity has returned to the economic system and the extreme risk aversion seen in markets in 2008 has started to reverse. This is reflected in the outperformance of emerging equity markets and credit and corporate bond markets thus far in 2009.


Grand Arcade, Cambridge

Whilst the near catastrophe of 2008 is largely behind us and the risk of the next Great Depression has been averted by the size and speed of central bank and government policy intervention, the effects on the real economy will continue to be felt for several years to come. In particular economic growth will be slower than trend as western consumers repair their balance sheets and until banks regain the confidence to lend money. This could take up to five years but we should be dealing with normal market cycles and normal market conditions during this period rather than the extremes witnessed in 2008.

The committee has reviewed the AVC products managed by Prudential and their performance. The committee has also reviewed the range of products available and considers them to be adequate for the time being.

As at 31 March 2009 the fund's asset allocation against benchmark was the following:-

	Actual %	Benchmark %
UK equities	32	35
Overseas equities	38	35
Alternative assets	9	10
Fixed interest	10	10
Property	6	10
Cash and other	5	-
Total	**100**	**100**

Total Investments of the Fund

	Internally managed			Externally managed		Total	
Fund or Fund manager	Main Fund	Alternative Investments	Index Fund	Capital International	Prudential	31 March 2009	31 March 2008 (restated)
	Active	Active	Passive	Active	Active		
	£m	£m	£m	£m	£m	£m	£m
UK Equities	4,168.1	39.3	2,361.4	222.3	-	**6,791.1**	10,302.5
Overseas Equities	6,382.1	63.9	-	1,493.5	-	**7,939.5**	12,103.5
UK Fixed interest	837.1	-	-	-	-	**837.1**	128.3
Overseas Fixed interest	1,233.4	63.2	-	-	-	**1,296.6**	2,546.1
Pooled investments -securities	8.8	1,702.4	-	166.4	-	**1,877.6**	1,110.7
Pooled investments - property	669.9	-	-	-	-	**669.9**	768.7
Derivatives	(424.7)	(53.8)	-	0.9	-	**(477.6)**	(337.0)
Direct Property	674.2	-	-	-	-	**674.2**	877.8
Cash and equivalent	1,302.1	142.7	0.5	45.4	-	**1,490.7**	1,119.8
Money purchase AVC investments	-	-	-	-	286.1	**286.1**	255.5
Other investment balances	140.3	27.7	43.7	27.1	-	**238.8**	154.3
Total 2009	**14,991.3**	**1,985.4**	**2,405.6**	**1,955.6**	**286.1**	**21,624.0**	
Total 2008	21,399.2	1,112.8	3,654.1	2,608.6	255.5		29,030.2

Alternative Investments

Alternative assets are further analysed below:

	31 March 2009 £m	31 March 2008 £m
Infrastructure	600.6	591.7
Private equity - funds	990.6	322.2
Private equity - direct	45.0	26.5
Absolute return strategies	245.2	151.8
Commodities	5.4	10.0
Other	98.6	10.6
Total	**1,985.4**	**1,112.8**

Distribution of assets

The portfolio distribution as at 31 March 2009, along with the comparative figures for the preceding year, is set out below:

	2009		2008	
	£m	%	£m	%
UK fixed interest	837.1	3.9	128.3	0.4
Overseas fixed interest	1,296.6	6.0	2,546.1	8.8
Total fixed interest	**2,133.7**	**9.9**	**2,674.4**	**9.2**
UK equities	6,834.8	31.6	10,345.3	35.6
Overseas equities	9,773.4	45.2	13,171.4	45.4
Total equities	**16,608.2**	**76.8**	**23,516.7**	**81.0**
Total securities	**18,741.9**	**86.7**	**26,191.1**	**90.2**
Derivatives	(477.6)	(2.2)	(337.0)	(1.2)
Property (incl. Indirect property)	1,344.1	6.2	1,646.5	5.7
Cash deposits	1,490.7	6.9	1,119.8	3.9
Money purchase AVC investments	286.1	1.3	255.5	0.9
Other investment balances	238.8	1.1	154.3	0.5
Total investments	**21,624.0**	**100.0**	**29,030.2**	**100.0**

The distribution of the portfolio's securities as at 31 March 2009 is further analysed on the next page.

	2009 £m	2008 £m
British Government Conventional	716.2	47.9
Other Debentures & loan stocks	120.9	80.4
Total UK fixed interest	**837.1**	**128.3**
North America	628.0	1,101.0
Europe	420.7	892.3
Japan	226.5	377.8
Far East	21.4	175.0
Total Overseas fixed interest	**1,296.6**	**2,546.1**
Resources	1,533.1	1697.8
Basic industries	594.8	1,182.1
General industrials	470.5	757.0
Consumer goods	896.9	1,170.7
Services	1,811.1	2,419.6
Utilities	327.1	453.0
Information Technology	78.1	97.9
Financials	1,077.6	2,524.4
Corporate preference shares	2.0	-
Managed Funds	43.6	42.8
Total UK equities	**6,834.8**	**10,345.3**
America	3,663.8	3,972.8
Japan	1,231.2	1,512.1
Europe	3,088.3	4,390.3
Far East	1,280.4	2,575.8
Other	509.7	720.4
Total Overseas equities	**9,773.4**	**13,171.4**
Total securities	**18,741.9**	**26,191.1**

Responsible Investment

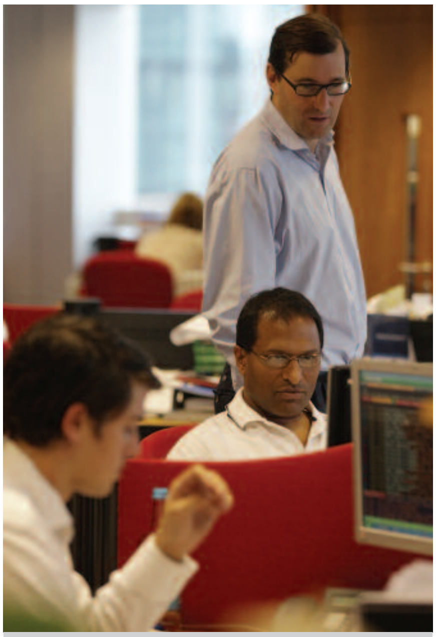
USS continues to play a leadership role in the implementation of its RI policy, and the manner in which it takes account of environmental, social and governance factors in the execution of its investment strategies.

There continues to be a strong focus on integrating these issues into investment decisions. In this ongoing process, we are analysing how specific issues will impact the value of the companies and other assets in which the fund invests, and how they will impact the long term returns the fund will receive. This involves both providing detailed analysis of the issues to USS's internal portfolio managers, and also holding joint meetings with investee companies.

The fund has also continued to engage with RI issues across its portfolios. This work ranges from engagement with companies on specific issues (such as executive remuneration, succession planning, health and safety and impacts of corporate projects on indigenous peoples) to engagement with specific asset classes (private equity). The RI team, in conjunction with portfolio managers, has also focussed on specific sectors such as the pharmaceutical and banking sectors and engagement with UK and overseas markets' players and regulators.

Taiwan was a particular focus of attention in 2008. Market-wide activity included participation in a conference to encourage Taiwanese companies to consider corporate social responsibility (CSR) issues more actively and meeting with regulators to encourage better governance and CSR reporting by Taiwanese companies. Stock specific issues included engaging with a company in which the fund had a large holding, the governance of which was causing concern, but which subsequently became one of Taiwan's best performing stocks.

In recognition of the leading role USS plays in its RI activities, the fund was awarded Pension Fund of the Year – Best Use of RI in 2008 by Professional Pensions.



James Turner, Philip Thomas &
Robert Crayfourd, Portfolio Managers
London Investment Office

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	639.3	2.9
BP	569.6	2.6
Vodafone Group	417.2	1.9
Glaxosmithkline	369.9	1.7
HSBC HDG	336.3	1.6
Astrazeneca	259.6	1.2
BHP Billiton	247.8	1.1
BG Group	240.5	1.1
British American Tobacco	183.5	0.8
Rio Tinto	168.3	0.8
Tesco	154.0	0.7
Unilever	146.8	0.7
Imperial Tobacco Group	142.3	0.7
Nestle R	126.4	0.6
Total SA	124.0	0.6
Diageo	123.9	0.6
Roche Holding	123.1	0.6
BAE Systems	116.9	0.5
Reckitt Benckiser	111.8	0.5
Standard Chartered	97.2	0.4
	4,698.4	**21.7**

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

Signed on behalf of the investment committee

V Holmes
Chairman

Finance and Policy Committee

The finance & policy committee (formerly the finance & general purposes committee) was established under the authority of the board in January 1984.

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

In essence, inter alia, it:

- Undertakes detailed work on behalf of the board and makes recommendations to it on major policy issues.
- Gives preliminary consideration to major issues, which it is intended should be brought to board.
- Oversees the detail of revisions to the company's risk management profile and policy and submits annual reports to the board.
- Gives detailed consideration to business and strategic plans and performance against plans.
- Gives detailed consideration to financial estimates and performance against estimates.
- Monitors communication with, and levels and quality of service provided to, member institutions and individual members.
- Monitors compliance with the requirements of appropriate regulatory bodies.

The committee members are appointed by the board and at 31 March 2009, comprised 10 members. Of the committee's 10 members six are directors of the trustee company, one is a UUK appointee to the board, two are UCU appointees, three are co-opted appointees of whom one, Professor John Bull, is the chairman. The other members of the committee are the chief executive, chief investment officer, chief financial officer and pensions policy manager.

During the year, the committee met on five occasions and considered matters such as the actuarial valuation of USS, the results of the scheme funding consultation, the employer covenant, expansion of USS, insolvency and withdrawal of institutions from USS, the scheme's eligibility criteria, transfer values, the government's pensions reform, salary sacrifice, the ePensions initiative, corporate performance of the trustee company and the business plan.

Signed on behalf of the finance and policy committee.

Professor John Bull
Chairman

Audit Committee

The audit committee was established under the authority of the board 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.

A copy of the committee's terms of reference is available on the USS website or can be obtained by writing to the company secretary.

The committee members are appointed by the board and at 31 March 2009 comprised five members;

- Michael Butcher (chairman) co-opted
- Professor John Bull co-opted
- Joseph Devlin UCU appointed
- Lady Maureen Merrison UCU appointed
- David McDonnell UUK appointed

Their biographical details can be found on pages 7 to 8. 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 members of the executive 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 board;
- 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 performance, independence and objectivity of the external auditor, including a review of non-audit fees, and recommended the re-appointment of the external auditor to the board;
- reviewed the objectives, effectiveness, structure and future direction of the internal audit function to ensure that it meets the assurance needs of the trustee company;
- 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;
- expressed its continued satisfaction with the trustee company'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 the trustee company.

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, whose salaries are determined at board level.

The committee's members are appointed by and from the board and at 31 March 2009 comprised five members; two are UUK appointees to the board, one is a UCU appointee and two are co-opted appointees of whom one, Mr Jacobs is the chairman.

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

- Salary awards to employees at the Liverpool and London offices;
- The remuneration and pay scales at the London office;
- London office bonus scheme and long-term incentive plan;
- Employment statistics for both the Liverpool and London offices;
- Reviewing the corporate risk profile document;
- The committee's terms of reference.

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.

The committee met on four occasions during the year, and the meeting in July 2008 was the one hundredth occasion on which the committee had assembled since the scheme's inception in 1975. The July 2008 meeting was also memorable as it marked the last meeting prior to retirement of the chairman, Sir Kenneth Berrill, who had chaired the committee since 1990 and who previously had been instrumental in developing the structure and design of the scheme in its formative years. Sir Kenneth was succeeded by Sir Andrew Cubie, who formally assumed the chairmanship of the committee from 1 September 2008.

Sir Kenneth sadly passed away on 30 April 2009, aged 88 years. He was one of the founding fathers of USS and was chairman of the JNC for 17 years, and he will be fondly remembered as an outstanding man with a sharp intellect, who chaired the business of the JNC in a most skilful and even-handed manner. He will be sadly missed by members of the committee, and indeed by the directors and staff of USS.

During the year rule changes were considered by the committee which resulted in three amending deeds being executed (the fifteenth to the seventeenth supplemental amending deeds). These amending deeds introduced the following changes to the USS rules:

- The fifteenth supplemental amending deed, which was executed on 9 May 2008, makes minor amendments to the section of the USS rules which provides for deductions to be made from USS benefits where the scheme would otherwise provide benefits in respect of service for which retirement benefits have already been provided (by another scheme). Minor technical changes are also made to the former rules relating to the rights of deferred beneficiaries who left prior to February 1994 to request early payment of actuarially reduced benefits.
- The sixteenth supplemental amending deed, which was executed on 30 January 2009, introduced a new power for the trustee company to enter into a scheme apportionment arrangement as permitted under the employer debt regulations, changes to which came into force on 6 April 2008.
- The seventeenth supplemental amending deed, executed on 1 April 2009, introduces further amendments to deal with the changes introduced by the Employment Equality (Age) Regulations 2006. Changes were made to the USS rules in three major areas, namely the arrangements for premature retirement other than by reason of redundancy, the provisions for discretionary augmentation of retirement benefits by institutions, and the rules relating to the early payment of benefits that have been transferred-in to USS within seven years.

In response to the growing cost pressures on pension schemes, a Joint Review Group (JRG) was established during the year to look at USS. The purpose of the review is to determine what changes should be made in order that USS may continue in the future to be an affordable as well as an attractive defined benefit scheme. The JRG, comprising representatives of the university employers' side and nominees of the University and College Union representing members, together with USS executive participation, is formally a working group of the USS Joint Negotiating Committee, under the independent chairmanship of Sir Andrew Cubie. The JRG met on six occasions during the year and the discussions are set to continue into 2009.

The major legislative work during the year was to look at the remaining elements of the anti-age discrimination legislation, which involved detailed analysis and which produced the amendments included in the seventeenth supplemental amending deed. Significant changes were also made to the employer debt regulations with effect from April 2008 and whilst some of the issues were dealt with in the fifteenth supplemental amending deed, there are further points which have been considered by the committee during the year, with further deliberation due to take place into 2009.

During the year the committee considered the issue of salary sacrifice for additional voluntary contributions, however after detailed discussion it was not possible to reach a consensus on the best way to incorporate these changes into the rules. The employers' representatives plan to undertake a consultation with institutions on this issue in order to re-assess the level of interest, and the issue may be brought forward for further consideration.

The project to re-write the rules of USS was progressed during the year, and whilst the task was led by the Rules Committee, the JNC was actively involved in agreeing the project's scope and in reviewing progress. By the end of March 2009 the task was virtually complete, and indeed the new rules were formally executed - after having been agreed by the JNC - and came into force on 1 May 2009.

Signed on behalf of the joint negotiating committee.

Sir Andrew Cubie
Chairman

Advisory Committee

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

Three full meetings were held during the year. Mr A D Linfoot fulfilled the role of chairperson until December 2009 at which time Dr A Roger assumed the role of chairperson.

The majority of questions raised on the application or interpretation of the rules of USS were dealt with by the senior officers. There were 19 cases which required detailed consideration by the advisory committee during the year.

Nine cases were related to members requesting full commutation of their benefits on the grounds of serious incapacity and in each case the full commutation was granted. One case related to the distribution of death in service lump sum benefit.

The remaining nine cases were considered at stage two of the internal disputes resolution procedure. Five cases related to retirement benefits, three related to the transfer in of benefits and one in respect of a claim for benefits following the death of a member. Of these nine cases, the officers' decision at stage 1 of the internal disputes resolution procedure was upheld in eight instances. One retirement case involving a member who had made financial decisions upon miss-quoted benefits was upheld, and appropriate compensation was awarded to the member by the committee.

It was necessary for the committee to meet on one additional occasion during the year to consider three decisions (included in the nine cases above) given by the pensions operations manager which were challenged following stage one of the internal disputes resolution procedure. The committee agreed that the stage 1 decision should stand in all three instances and the members' complaints should be rejected.

In addition to making adjudications on these individual cases the committee reviewed a number of other areas of the scheme including; correspondence issued in cases of full commutation and during the full commutation application procedure, the criteria for granting/continuing an eligible child's annuity when in receipt of funding and cases submitted to the Pensions Ombudsman.

Signed on behalf of the advisory committee.

A Roger
Chairperson

Rules Committee

In conjunction with the executive and the scheme's professional advisers, the rules committee's primary function is to supervise the rule amendment process within USS.

In its sixth year the rules committee's principal activity was to oversee the rules re-write project. The former rules had, over time, become extremely complex due to numerous amendments and additions, and the objective was to produce a revised set of rules which retained the same benefit provisions and other terms whilst improving the language and intelligibility. The project was completed over a planned 12 month period and has delivered a new set of rules which are a significant improvement on their predecessor, and feedback from member and institutions has been positive. The new rules were executed on 1 May 2009.

The committee has also been involved in the following activities:

- Finalising the rule amendments required to give the trustee company sufficient power to utilise to best advantage the employer debt legislation where an institution withdraws from the scheme.
- Completing the rule amendments to ensure the scheme is compliant with the age discrimination legislation, particularly with regard to transfers-in and benefit augmentations upon retirement.
- Continuing to review the legislative amendments which have been made following the introduction of the Finance Act 2004, and in particular to review the proposals made with regard to trivial commutation and payment of children's pensions.

The committee met on five occasions during the year.

Signed on behalf of the rules committee.

H R Jacobs
Chairman

Nominations Committee

The nominations committee was established under the authority of the board.

Its main purpose is to support and advise the board to ensure that the board and its committees comprise individuals who are best able to discharge the responsibilities of the committees.

The committee members are appointed by the board and at 31 March 2009 comprised the chairman of the trustee company, a UUK appointed director, a UCU appointed director, the chief executive and a co-opted director who acts as chairman. When considering matters relating to the membership of a committee, the relevant committee chair is co-opted to the committee for that matter.

During the year, the committee met on three occasions. The matters that have been considered include:

- conducting the reappointment process for co-opted directors;
- conducting the appointment process for committee vacancies on the finance and policy and audit committees;
- reviewing the composition of and skill sets for committees;
- reviewing the induction, training and development programmes for directors;
- agreeing the content of and arranging board education sessions;
- reviewing the continuing independence of co-opted directors; and
- succession planning for directors.

Signed on behalf of the nominations committee.

Professor John Bull
Chairman

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 board of the trustee company on written advice from the investment committee (a sub-committee of the board), the scheme's external investment consultants and the scheme actuary and has followed consultation with the participating employers.

1.3 The board 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 wishes of the employers and the board 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 both as at 31 March 2008 and as projected over the medium term:

	31 March 2008	Projected %
Equities	76	60
Alternative assets	4	20
Fixed interest (including index-linked)	10	10
Property	10	10

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 where appropriate by a number of discretionary managers and an index tracking manager although the majority are managed in-house. The appointment of more than one manager 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 sub-contracting the management function to specialists or through direct investment.

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 committee and the board.

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 board 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 board and their investment performance is monitored by the investment committee.

8. Governance

8.1 The board, 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 board and up to five may be persons other than directors whom the board may decide to appoint because of their knowledge of and expertise in investment matters. In making its recommendations to the board, the investment committee receives advice from its external investment consultants whenever it considers it appropriate. The investment committee implements the board'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.

University Institutions

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
0100	Aberdeen	1,945	676	161
4100	Aston	712	401	128
4300	Bath	1,464	444	83
6600	Belfast	2,295	739	160
1000	Birmingham	3,188	1,137	267
4200	Bradford	889	567	107
1100	Bristol	2,957	903	169
4400	Brunel	1,017	355	75
7035	Buckingham	91	54	7
1200	Cambridge (University)	5,386	1,190	344
1202	Christ's	24	8	6
1204	Churchill	105	11	-
1206	Clare	16	5	1
1208	Clare Hall	10	1	1
1210	Corpus Christi	46	10	3
1212	Darwin	4	2	2
1214	Downing	55	10	4
1216	Emmanuel	22	6	1
1218	Fitzwilliam	73	14	2
1220	Girton	38	17	3
1222	Gonville & Caius	62	11	3
1224	Hughes Hall	7	2	-
1226	Jesus	17	6	2
1228	King's	75	17	2
1230	Lucy Cavendish	38	7	2
1232	Magdalene	28	7	3
1234	New Hall	73	12	2
1236	Newnham	48	18	4
1238	Pembroke	55	12	-
1240	Peterhouse	13	5	1

University Institutions continued

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
1242	Queen's	16	4	1
1245	Robinson	19	10	-
1246	St Catharine's	24	8	1
1255	St Edmund's	19	1	1
1250	St John's	41	9	5
1252	Selwyn	16	1	2
1254	Sidney Sussex	57	2	2
1258	Trinity	47	17	6
1260	Trinity Hall	25	7	5
1268	Wolfson	22	4	1
4700	City	1,342	485	110
7016	Cranfield	952	586	120
0700	Dundee	1,642	481	108
1300	Durham (University)	1,880	564	105
1301	St Chad's	9	-	-
1302	St John's	3	1	-
1303	Ushaw College	4	1	-
1500	East Anglia	1,572	543	69
0200	Edinburgh	4,473	1,204	281
1700	Essex	1,259	285	65
1600	Exeter	1,467	627	100
0300	Glasgow	2,888	1,033	219
0800	Heriot-Watt	880	311	64
1800	Hull	1,118	542	124
3100	Keele	1,141	328	73
1900	Kent	1,247	454	69
2100	Lancaster	1,232	432	93
2000	Leeds	3,784	1,314	277
2200	Leicester	1,737	484	100
2300	Liverpool	2,422	922	206

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
2497	London (University)	523	669	191
2408	Birkbeck	800	198	32
2401	Goldsmiths' College	711	187	15
2480	Heythrop	28	7	-
2409	Imperial College of Science, Technology & Medicine	3,207	1,223	311
2440	Institute of Cancer Research	775	28	6
2403	Institute of Education	697	255	49
2410	King's College London	3,176	1,087	227
2412	London School of Economics & Political Science	1,105	301	66
2434	London School of Hygiene & Tropical Medicine	672	122	37
2413	Queen Mary & Westfield College	1,765	610	145
2447	Royal Holloway and Bedford New College	845	299	62
2436	Royal Veterinary College	339	65	22
2428	St George's Hospital Medical School	519	112	20
2415	School of Oriental & African Studies	520	215	55
2416	School of Pharmacy	128	39	13
2417	University College	5,178	1,339	256
2484	London Business School	345	52	11
4600	Loughborough	1,603	576	148
2500	Manchester	5,087	2,117	394
1400	Newcastle-Upon-Tyne	2,428	890	204
2600	Nottingham	3,496	826	182
8900	Open	6,429	2,081	235

University Institutions continued

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
2700	Oxford (University)	5,397	1,445	389
2701	All Souls	28	15	3
2702	Balliol	43	6	5
2703	Brasenose	31	5	3
2704	Christ Church	55	11	5
2705	Corpus Christi	22	6	2
2706	Exeter	37	6	3
7028	Green Templeton College	12	21	4
2735	Harris Manchester	11	3	-
2707	Hertford	29	10	2
2708	Jesus	30	12	1
2709	Keble	34	8	-
2710	Lady Margaret Hall	36	12	4
2734	Linacre	7	4	-
2711	Lincoln	21	6	2
2712	Magdalen	32	12	6
2732	Mansfield	18	6	2
2713	Merton	36	7	4
2714	New College	52	16	6
2715	Nuffield	35	10	2
2716	Oriel	47	13	-
2717	Pembroke	31	5	2
2718	Queen's	31	13	2
2736	Regent's Park	5	-	-
2727	Somerville	45	12	-
2719	St Anne's	41	12	-
2720	St Antony's	19	15	1
2737	St Benet's Hall	1	-	-

University Institutions continued

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
2721	St Catherine's	40	12	2
2722	St Edmund Hall	26	4	1
2723	St Hilda's	48	20	1
2724	St Hugh's	34	9	1
2725	St John's	59	12	1
2726	St Peter's	33	5	3
2728	Trinity	23	6	1
2729	University	39	11	5
2730	Wadham	44	7	5
2733	Wolfson	12	4	5
2731	Worcester	35	12	1
2800	Reading	1,940	716	173
0400	St Andrews	1,041	332	65
4800	Salford	1,199	613	126
2900	Sheffield	2,996	920	185
3000	Southampton	3,092	850	149
0500	Stirling	881	319	56
0600	Strathclyde	2,165	688	177
4000	Surrey	1,451	604	107
3200	Sussex	1,130	510	115
6800	Ulster	1,914	549	102
3900	Wales (University)	53	29	3
3300	Aberystwyth	917	331	81
3400	Bangor	866	432	99
3500	Cardiff	3,055	920	230
3800	Lampeter	138	61	15
3600	Swansea	1,401	480	111

University Institutions continued

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
5000	Warwick	2,471	542	104
5200	York	1,768	398	68
	Old University Institutions total	**127,524**	**41,692**	**8,871**

New Universities admitted for limited membership only

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
8160	Abertay	4	1	-
8280	Bedfordshire	17	-	-
8350	Birmingham City	29	-	-
8420	Bolton	13	-	-
8100	Bournemouth	10	3	-
8080	Brighton	63	1	-
8430	Canterbury Christ Church	18	-	-
8150	Central Lancashire	30	4	2
8470	Chichester	3	-	-
8110	Coventry	68	3	1
8060	De Montfort	19	5	-
8500	Edge Hill	4	-	-
8010	Glamorgan	17	3	-
8400	Glasgow Caledonian	44	-	-
8440	Gloucestershire	14	-	-
8210	Greenwich	3	-	-
8040	Hertfordshire	2	-	-
8050	Huddersfield	41	1	-
8170	Kingston	20	-	-
8480	Leeds Metropolitan	16	-	-
8190	Lincoln	41	3	-
8300	Liverpool Hope	8	1	-
8270	Liverpool John Moores	20	-	-
8240	London Metropolitan	39	2	-
8140	Manchester Metropolitan	35	4	-
8460	Northampton	10	-	-
8510	Northumbria	10	-	-
8090	Nottingham Trent	39	6	-

New Universities admitted continued

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
8120	Oxford Brookes	70	2	-
8070	Plymouth	47	9	-
8290	Queen Margaret University	19	-	-
8370	Roehampton	51	-	-
8220	Sheffield Hallam	174	6	-
8020	South Bank	39	7	-
8320	Sunderland	15	-	-
8340	Swansea Institute of Higher Education	15	1	-
8330	Teeside	3	-	-
8030	Thames Valley	8	5	-
8490	Trinity College	6	-	-
8380	University College Falmouth	4	-	-
8180	University of Wales Institute, Cardiff	49	-	-
8410	West of England	42	1	-
8250	West of Scotland	2	1	-
8130	Westminster	45	-	-
8450	Winchester	18	1	-
8390	Wolverhampton	16	-	-
8360	Worcester	14	-	-
	New Universities admitted for limited membership only total	**1,274**	**70**	**3**

Non-University Institutions

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
7224	AGCAS	15	-	-
7221	Al-Maktoum Institute	3	-	-
7252	Amaethon Ltd	-	-	-
7010	Animal Health Trust	52	14	2
7309	APUC Ltd	14	-	-
7080	Arable Group	2	6	2
7040	Arthritis Research Campaign	-	6	-
7275	Arts and Humanities Research Council	1	-	-
7190	Ashridge (Bonar Law Memorial) Trust	316	11	1
7178	Assessment and Qualifications Alliance	18	46	8
7011	Association of Commonwealth Universities	38	40	9
7255	Aston Academy of Life Sciences	6	-	-
7108	Aston Technical Planning & Management Services Ltd	-	-	1
7067	Beatson Institute for Cancer Research	89	5	4
7273	Biochemical Society	1	-	-
7037	Brewing Research International	39	20	4
7206	Bristol Zoo Gardens	1	-	-
7012	British Glass Manufacturing Confederation	-	7	-
7033	British Institute for the Study of Iraq	1	-	-
7030	British Institute in Eastern Africa	4	1	-
7091	British Institute of Archaeology at Ankara	3	3	-
7112	British Institute of International & Comparative Law	1	1	-
7097	British Psychological Society	2	3	-
7087	British School at Athens	3	2	1
7092	British School at Rome	1	-	-
7050	British Universities Sports Association	4	2	-

Non-University Institutions continued

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
7122	Burden Neurological Institute	-	3	-
7116	Cambridge Crystallographic Data Centre	38	14	-
7296	Cambridge University Technical Services	27	1	-
7060	Cancer Research UK	6	12	2
7279	Care Coordination Network UK	-	-	-
7153	CASE (Europe)	5	1	-
7291	Centre for Advanced Software Technology Ltd	4	-	-
7197	Centre for Migration Studies	1	-	-
7286	Challenge Fund Trading Company Ltd	2	-	-
7015	College of Estate Management	34	38	7
7191	Connect - The Communications Disability Network	13	1	-
7110	Council for British Research in the Levant	2	-	-
7265	Council for Christian Colleges and Universities UK	5	-	-
7216	Courtauld Institute of Art	69	16	2
7188	Cranfield Aerospace Ltd	13	10	-
7219	Cranfield Innovative Manufacturing Ltd	6	1	1
7288	Crescent Purchasing Ltd	13	-	-
7098	Culham Institute	1	-	-
7145	Dartington Hall Trust	2	2	-
7217	Duke Corporation Education Ltd	7	-	-
7253	East Malling Research	84	16	-
7241	Economic Research Institute of Northern Ireland Ltd	7	1	-
7164	Edinburgh Business School	28	5	-
7032	Edinburgh University Students' Association	49	42	3

Non-University Institutions continued

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
7282	Educational Competences Consortium Ltd	3	-	-
7182	EDUSERV	64	4	-
7266	EDUSERV Technologies Ltd	2	-	1
7229	Energy Consortium (Education)	4	2	-
7139	Engineering Development Trust	18	14	1
7290	Equality Challenge Unit	13	-	-
7257	ESCP-EAP European School of Management	21	1	-
7212	EUSPEN Ltd	2	-	-
7089	Ewing Foundation	3	2	-
7239	Facial Surgery Research Foundation	3	-	-
7283	Florida State University IPA UK	-	-	-
7214	Forum for European Philosophy	-	-	-
7175	Freshwater Biological Association	13	2	-
7041	Geographical Association	9	3	-
7246	Graduate Prospects	3	-	-
7152	Gray Laboratory	11	4	-
7303	GU Heritage Retail Limited	1	-	-
7180	GuildHE Ltd	2	-	-
7304	Health and Europe Centre	2	1	-
7176	HEFCE	3	-	-
7230	Heriot-Watt University Students Association	2	1	-
7258	Higher Education Academy	95	3	-
7157	Higher Education Careers Service Unit	2	6	-
7186	Higher Education South East	1	1	-
7135	Higher Education Statistics Agency Ltd	24	4	2
7053	History of Parliament Trust	23	8	-
7143	Homerton College	26	5	-
7170	Hull University Union	11	2	-

Non-University Institutions continued

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
7236	Institute for Criminal Policy Research	8	-	-
7029	Institute for Employment Studies	5	14	2
7306	Institute for Research and Innovation in Social Services	9	-	-
7017	Institute of Development Studies	151	43	9
7056	Institute of Food Science & Technology	3	-	-
7231	Interactive University	-	2	-
7124	International Institute of Biotechnology	-	-	-
7132	International Society (Manchester)	2	1	-
7149	International Students House	3	1	-
7298	JBS Executive Education Ltd	11	-	-
7289	JISC Content Procurement Company	11	-	-
7147	JNT Association	106	14	2
7054	Joint Library of Hellenic & Roman Societies	-	1	-
7189	Kelvin Nanotechnology Ltd	4	-	-
7226	Kidscan Ltd	2	-	-
7240	Leadership Foundation for Higher Education	14	1	-
7177	Learning from Experience Trust	-	-	-
7208	LeNSE Ltd	2	-	-
7271	LHASA Limited	51	-	-
2482	Lister Institute of Preventive Medicine	-	4	4
7277	Liverpool University Press 2004 Ltd	6	-	-
7168	London Mathematical Society	13	-	-
7179	London School of Jewish Studies	1	2	-
7235	London Universities Purchasing Consortium	4	1	-
7117	Ludwig Inst for Cancer Research - Middlesex Branch	1	9	-
7311	Macrobert Arts Centre Ltd	1	-	-
7215	Manchester Medical Society	2	-	-

Non-University Institutions continued

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
7090	Marie Curie Cancer Care	40	7	4
7125	Marine Biological Association of the United Kingdom	37	1	-
7094	MIRA Ltd	351	76	10
7096	Modern Humanities Research Association	7	-	-
7268	Myscience.co Ltd	53	1	-
7018	National Institute of Economic & Social Research	24	13	4
7272	Ner Yisrael Educational Trust	2	-	-
7205	North East Wales Institute	15	-	-
7073	Northern College	34	17	2
7270	Northern Consortium	5	-	-
7269	Northern Consortium UK Ltd	9	-	-
7146	Northern Ireland Council for Postgraduate Medical & Dental Education	3	4	1
7292	Nuffield Trust for Research & Policy Studies in Health Services	-	7	-
7301	NUINTO Ltd	13	-	-
7048	Numerical Algorithms Group Ltd	58	16	2
7183	NYU in London	11	1	-
7242	Office for the Independent Adjudicator for Higher Education	18	1	-
7260	Mulberry Bear Day Nursery & Pre-School	14	1	-
7284	Open College Network Eastern Region	22	-	-
7261	Open University Students' Association	14	4	-
7058	Open University Worldwide	36	16	-
7023	Overseas Development Institute	76	17	-
7174	Oxford Cambridge & RSA Examinations	170	34	2
7031	Oxford Centre for Hebrew & Jewish Studies	12	3	2
7118	Oxford Centre for Islamic Studies	10	1	-

Non-University Institutions continued

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
7297	Oxford Colleges Admission Office	9	-	-
7163	Oxford Policy Institute	2	-	-
7287	Oxford Said Business School	24	2	-
7305	Oxford University Asset Management Ltd	4	-	-
7104	Pain Relief Foundation	1	-	-
7243	Picker Institute Europe	-	-	-
7075	Policy Studies Institute	32	21	4
7162	Quality Assurance Agency	61	19	3
7264	Queen Victoria Blond Mc Indoe Research Foundation	3	1	-
7234	Rambert School of Ballet and Contemporary Dance	4	1	-
7203	Regional Studies Association	4	-	-
7156	Regulatory Policy Institute	1	-	-
7238	Rhodes Trust	4	-	-
7123	Richmond University	50	15	1
7185	Royal Academy of Dance	1	-	-
7160	Royal Academy of Music	4	1	-
7218	Royal Agricultural College	1	1	-
7181	Royal College of Music	88	2	-
7081	Royal College of Paediatrics and Child Health	3	2	-
7020	Royal College of Surgeons of England	147	41	12
7021	Royal Geographical Society	2	3	1
7077	Royal Institution	6	4	2
7158	Royal Northern College of Music	2	1	-
7064	Royal Society	2	-	-
7070	Royal Society of Edinburgh	2	2	-
7022	Ruskin College	47	31	7
7294	Sainsbury Centre for Mental Health	21	-	-

Non-University Institutions continued

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
7300	Sarah Lawrence at Oxford	3	-	-
7105	School Mathematics Project	2	5	-
7130	Scottish Association for Marine Science	101	3	2
7232	Scottish Further Education	-	-	-
7262	Shared Care Network	13	-	-
7196	Sheffield University Enterprises Ltd	4	-	-
7199	Smith Institute	10	-	-
7274	Society for Experimental Biology	3	-	-
7169	Society of Antiquaries of London	12	3	-
7131	Southern Universities Management Services	14	4	-
7220	Stockholm Environment Institute	12	-	-
7042	Strangeways Research Laboratory	10	14	2
7187	Technology Innovation Centre	2	-	-
7299	The English Association	2	-	-
7134	The Prince's Foundation	2	2	-
7312	The Russell Group of Universities	7	-	-
7138	Thrombosis Research Institute	11	6	-
7109	Trade Union Research Unit Ltd	-	2	-
7173	Trinity Laban	76	8	2
7263	UC (Suffolk) Ltd	229	1	-
7293	UCL Business Plc	18	1	-
7204	UHI Millenium Institute	10	1	-
7250	UK Biobank Ltd	24	-	-
7210	UK Council for International Student Affairs	18	1	1
7166	UMIST Ventures Ltd	2	-	-
7106	Universities and Colleges Admissions Service	20	19	6
7150	Universities and Colleges Employers Association	12	2	-

Non-University Institutions continued

No.	Name	Actives	Pensioner Members	Spouses, Dependants and Dependant Children
9999	Universities Superannuation Scheme Ltd	187	41	5
7121	Universities UK	50	14	2
7295	University and College Union	173	24	5
7184	University Council for the Education of Teachers	4	1	-
7302	University of Essex Students' Union	24	-	-
7049	University of Leicester Students' Union	1	4	1
7256	University of Sheffield Union of Students	9	-	-
7171	University of the Arts London	20	2	-
7202	University of Wales, Newport	5	-	-
7227	Warren House Group at Dartington	15	-	-
7065	Wildfowl & Wetlands Trust	2	10	2
7142	WP Management Ltd	6	2	-
7027	York Archaeological Trust	3	2	-
7223	York Health Economics Consortium Ltd	7	-	-
7195	Yorkshire Universities	14	1	-
7280	Young Foundation	20	9	-
7076	Zoological Society of London	38	12	1
-	Withdrawn institutions	-	126	20
	Non-University Institutions total	**4,555**	**1,173**	**174**
	All Institutions Total	**133,353**	**42,935**	**9,048**

Summary of Movements

for the period 1 April 2008 to 31 March 2009

Details	University Institutions	Non-University Institutions	Totals
Total members as at 1 April 2008	122,177	4,209	126,386
New members	22,813	905	23,718
Retirements			
- Ill-health	101	3	104
- Other	2,096	95	2,191
Deaths	85	14	99
Leavers and withdrawals			
- Refunds	1,689	97	1,786
- Deferred/undecided	11,786	341	12,127
- Retrospective*	435	9	444
Total members as at 31 March 2009	**128,798**	**4,555**	**133,353**

* 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 5,145 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 2008	39,866	1,063	40,929
Mergers	0	0	0
New pensioners	3,095	137	3,232
Deaths	1,199	27	1,226
Total pensioners at 31 March 2009	**41,762**	**1,173**	**42,935**

In addition at 31 March 2009, there were 8,229 pensions being paid to spouses and dependants and 819 annuities being paid to dependent children.

Deferred pensioners not yet receiving a pension totalled	**78,751**

Ex-spouse participants

At 31 March 2009, 391 ex-spouse participants have benefits within the scheme in their own right as a result of pension sharing, of whom 69 are now in receipt of their pension and are included in the pensioner member summary above.

Number of members with multiple appointments as at 1 April 2009	**2,385**

Fund Account

for year ended 31 March 2009

	Note	2009 £m	2008 £m (restated)
Contributions and Benefits			
Contributions receivable	3	1,190.1	1,070.2
Premature retirement scheme receipts		15.8	19.7
Transfers in	4	150.6	130.6
		1,356.5	**1,220.5**
Benefits payable	5	1,061.2	967.1
Payments on account of leavers	6	42.0	37.1
Administration costs	7	16.3	14.3
		1,119.5	**1,018.5**
Net additions from dealings with members		**237.0**	**202.0**
Returns on Investments			
Investment income	8	866.1	952.9
Change in market value of investments	9	(8,479.5)	(2,388.6)
Investment management expenses	10	(28.3)	(26.3)
Net returns on investments		**(7,641.7)**	**(1,462.0)**
Net decrease in the fund during the year		**(7,404.7)**	**(1,260.0)**
Fund at start of year		**29,098.1**	**30,358.1**
Fund at end of year		**21,693.4**	**29,098.1**

The notes on pages 62 to 75 form part of these financial statements.

Statement of Net Assets

as at 31 March 2009

	Note	2009 £m	2008 £m
Investment Assets			
Securities	12	16,864.3	25,080.4
Pooled investment vehicles securities	13	1,877.6	1,110.7
Pooled investment vehicles property	13	669.9	768.7
Derivatives	14	52.3	35.8
Property	16	674.2	877.8
Cash deposits		1,490.7	1,119.8
Money purchase AVC investments		286.1	255.5
Other investment balances	17	330.6	297.4
		22,245.7	**29,546.1**
Investment liabilities			
Derivatives	18	(529.9)	(372.8)
Other investment balances	19	(91.8)	(143.1)
		(621.7)	**(515.9)**
Net investment assets		**21,624.0**	**29,030.2**
Current assets	**20**	**121.1**	**120.0**
Current liabilities	**21**	**(51.7)**	**(52.1)**
Total net assets, representing the fund balance		**21,693.4**	**29,098.1**

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustee. 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 trustee's funding statement and certificate of technical provisions on pages 83 to 89 and these financial statements should be read in conjunction with them.

The money purchase AVC investments included within net assets represent additional voluntary contributions invested with the Prudential. These assets are specifically allocated to secure extra benefits for those members that have made these additional voluntary contributions.

The financial statements on pages 60 to 75 were approved by the trustee, Universities Superannuation Scheme Limited, on 21 July 2009 and were signed on its behalf by:

Martin Harris
Chairman

T H Merchant
Chief Executive

The notes on pages 62 to 75 form part of these financial statements.

Notes to the Financial Statements

for year ended 31 March 2009

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 (revised May 2007)”.

This is the first year the revised SORP has applied to these financial statements. As a result, amendments to disclosures and presentation have been made in order to comply with the revised SORP and, where appropriate, prior year comparatives have been amended.

Money transferred from the Prudential to secure additional USS benefits has been reclassified in the current year within contributions and benefits payable and comparatives have been restated accordingly. The directors of the trustee company have decided that this is a more appropriate disclosure. This reclassification has not resulted in any change to the net assets position for the year ended 31 March 2008.

Changes to Accounting Policies

As a result of the new SORP "Financial Reports of Pension Schemes (revised May 2007)" and in accordance with its guidelines, investments are now valued in these financial statements at their bid or offer prices for assets and liabilities respectively where there is a bid/offer spread rather than mid market price. The difference in valuation is considered to be immaterial to the financial statements and therefore comparatives have not been restated. As a result the comparative figures are reported on a mid price basis and the reduction of £41.7m in valuation from mid to bid/offer prices is included in the current year change in market value.

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.

Foreign currencies

Foreign currency investments and related assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences arising from translation are included in the fund account within the change in market value of investments. Foreign currency income and expenditure is translated at exchange rates prevailing on the appropriate dates, which are usually the transaction dates.

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 bid market prices depending on the convention of the stock exchange on which they are quoted;
(b) Fixed interest securities	• stated at their 'clean' prices, with accrued income accounted for within investment income;
(c) Unquoted securities, including most investments in private equity and infrastructure (both direct and via pooled vehicles)	• at valuations based on published prices, the latest information available from management accounts or audited accounts, or at cost less any provision for impairment;
(d) Property	• on the basis of open market value as at the year end date determined in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (6th edition). The properties have been valued by independent external valuers, Drivers Jonas LLP;
(e) Pooled investment vehicles	• at unit prices or values based on the market valuation of the underlying assets;
(f) Money purchase AVC investments	• at net asset value provided by the AVC provider at the year end date.

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

Derivatives

Derivative contracts are included in the net assets statement at fair value. Exchange traded derivatives with positive values are included in the net assets statement as assets at bid price, and those with negative values as liabilities at offer price.

Derivatives with an initial purchase price are reported as purchases. Those that do not have an initial purchase price but require a deposit, such as initial margin to be placed with the broker, are recorded at nil cost on purchase.

Futures

Open futures contracts are recognised in the net assets statement at their fair value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract, as determined by the closing exchange price as at the year end.

Margin balances with the brokers represent the amounts outstanding in respect of the initial margin and any variation margin due to or from the broker.

Amounts included in the change in market value represent realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.

Forward foreign exchange contracts

Forward foreign exchange contracts outstanding at the year end are stated at fair value, which is determined as the gain or loss that would arise if each outstanding contract was matched at the year end with an equal and opposite contract at that date.

Changes in the fair value of the forward contracts are reported within change in market value in the fund account.

Options

Traded options are valued at the fair value as determined by the exchange price for closing out the option as at the year end. Changes in the fair value of the option are reported within change in market value.

Collateral payments and receipts are reported within cash, and are not included within realised gains or losses reported within change in market value.

Swaps

The commodity swap is valued at fair value, based on the the weighted change in the relevant S&P Goldman Sachs commodities indices as per the swap agreement and deducting the accrued liabilities for fees and interest.

Net receipts or payments are reported within change in market value. Realised gains or losses on closed contracts and unrealised gains and losses on open contracts are included within change in market value. The notional principal amount is used for the calculation of cash flow only.

3. Contributions

	2009 £m	2008 £m (restated)
Main section		
Employers' contributions	510.3	668.5
Employers' salary sacrifice contributions	349.4	13.6
Members' basic contributions	213.7	283.0
Members' additional voluntary contributions	47.7	42.3
	1,121.1	**1,007.4**
Supplementary section		
Members' contributions	12.4	16.6
Money purchase AVCs		
Members' additional voluntary contributions	56.6	46.2
	1,190.1	**1,070.2**

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

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 HMRC.

4. Transfers in

	2009 £m	2008 £m
Individual transfers in	110.7	123.3
Group transfers in	39.9	7.3
	150.6	**130.6**

5. Benefits payable

	2009 £m	2008 £m (restated)
Main section		
Pensions	810.3	747.2
Lump sums on or after retirement	235.3	196.0
Lump sums on death in service	2.0	11.9
	1,047.6	**955.1**
Supplementary section		
Pensions	10.0	9.4
Lump sums on or after retirement	0.4	0.3
Lump sums on death in service	1.6	0.7
	12.0	**10.4**
Money purchase AVCs		
Pensions	33.6	23.6
Lump sum death benefits	0.3	0.4
Transferred to USS	(32.3)	(22.4)
	1.6	**1.6**
	1,061.2	**967.1**

Money purchase AVCs transferred to USS represent amounts transferred from the Prudential to USS on members' retirement for inclusion within USS benefits.

6. Payments on account of leavers

	2009 £m	2008 £m
Individual transfers to other schemes	37.5	32.8
Payments for members joining state scheme	1.8	1.7
Refunds to members leaving service	2.7	2.6
	42.0	**37.1**

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

	2009 £m	2008 £m
Dividends from UK equities	337.4	396.9
Net property income	49.8	51.5
Income from pooled investment vehicles	29.0	18.1
Dividends from overseas equities	297.9	322.9
Income from UK fixed interest securities	14.7	11.0
Income from overseas fixed interest securities	104.1	97.0
Interest on cash deposits	40.4	48.8
Interest from money purchase AVCs	1.0	0.7
Other income	13.0	24.3
	887.3	**971.2**
Irrecoverable withholding tax	(21.2)	(18.3)
	866.1	**952.9**

9. Change in market value of investments

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

	Market value 2008 £m (restated)	Purchases during the year at cost £m	Proceeds of sales during the year £m	Changes in value during the year £m	Market value 2009 £m
Securities	25,080.4	9,660.0	(12,337.3)	(5,538.8)	16,864.3
Pooled investment vehicles-securities	1,110.7	1,125.1	(173.9)	(184.3)	1,877.6
Pooled investment vehicles-property	768.7	164.4	-	(263.2)	669.9
Derivatives	(337.0)	125,332.9	(123,131.5)	(2,342.0)	(477.6)
Property	877.8	78.6	-	(282.2)	674.2
Money purchase AVC investments	255.5	58.1	(34.5)	7.0	286.1
Cash deposits	1,119.8	246.9	-	124.0	1,490.7
	28,875.9	**136,666.0**	**(135,677.2)**	**(8,479.5)**	**21,385.2**
Other investment balances	154.3				238.8
Total	**29,030.2**				**21,624.0**

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. Included in the amount for derivatives are realised and unrealised losses of £2,599.1m from forward currency contracts, which are used to hedge the currency risk relating to overseas investments (see note 15). These are offset by gains in the values of the corresponding overseas assets.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £17.0m (2008: £29.1m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

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.

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 irrecoverable tax suffered is shown in note 8.

12. Securities

	2009 £m	2008 £m
Quoted		
UK equities	6,791.1	10,302.5
Overseas equities	7,939.5	12,103.5
UK fixed interest - public sector quoted	716.2	47.9
UK fixed interest - other	120.9	80.4
Overseas fixed interest - public sector quoted	1,046.1	2,335.0
Overseas fixed interest - other	250.5	211.1
	16,864.3	**25,080.4**

13. Pooled investment vehicles

	2009 £m	2008 £m
Securities		
Managed Funds and Limited Partnerships	1,870.6	1,098.4
Unit Trusts	7.0	12.3
	1,877.6	**1,110.7**
Property		
Unit Trusts	441.2	475.8
Property companies	2.6	4.5
Limited Partnerships	226.1	288.4
	669.9	**768.7**
	2,547.5	**1,879.4**

14. Derivative contracts (assets)

	Notes	2009 £m	2008 £m
Options	15 (a)	4.2	1.2
Futures contracts	15 (b)	15.1	0.6
Swaps	15 (c)	-	-
Forward Foreign Exchange Contracts	15 (d)	33.0	34.0
		52.3	**35.8**

15. Derivative contracts outstanding

The information provided below in relation to derivatives has been presented in accordance with the SORP (revised May 2007). The valuations are based on the unrealised fair values of the various investments as at 31 March 2009. These valuations will not necessarily reflect the fair values that will be realised on maturity or sale of the various investments.

a) Options (exchange traded)

Type of Option	Notional amount of outstanding contracts	Asset	Liability
	£m	£m	£m
Purchased commodity options	28.8	1.9	-
Sold commodity options	5.7	-	(0.4)
Purchased currency and bond options	184.8	2.3	-
Sold currency and bond options	16.4	-	(0.2)
	235.7	**4.2**	**(0.6)**

The notional amount of outstanding contracts represents the value of underlying stock protected by the options. The contracts have expiry dates of up to three months after the year end. The contracts are held as part of an absolute return portfolio which is intended to produce positive returns even in falling markets.

b) Futures (exchange traded)

Underlying investment	Economic exposure	Asset	Liability
	£m	£m	£m
UK FTSE	388.5	10.1	-
US Treasury	25.1	1.0	-
US S&P 500	36.1	3.8	-
US MSCI	2.6	0.2	-
US Russell 2000	15.3	-	(2.1)
	467.6	**15.1**	**(2.1)**

The economic exposure represents the notional value of stock purchased under the futures contract and is therefore subject to market movements. The contracts have expiry dates of up to three months after the year end. Futures are bought or sold to allow the scheme to change its exposure to a particular market or asset class more quickly than by holding the underlying stocks; they are easier to trade than conventional stocks, particularly in larger amounts.

c) Swaps (OTC)

Contract	Notional principal £m	Asset £m	Liability £m
Commodity Swap	121.1	-	(12.2)

The notional principal of the swap is the amount used to determine the value of swapped commodities and interest payments. The fund receives the return on an index based on a basket of commodities and pays interest based on the US T-Bill three month rate. The swap will expire in December 2009. The contract is part of the scheme's alternative investments portfolio and captures the returns from investment in commodities without the scheme having to hold and store those underlying commodities. Commodity markets have a low correlation with bond and equity markets and investment in commodity swaps is intended to reduce the volatility of the total return on the fund.

d) Forward foreign exchange (OTC)

Forward contracts for sterling to:

		Currency millions	GBP bought £m	GBP sold £m	Asset £m	Liability £m
Purchase Australian dollars	AUD	300.0	-	128.8	16.2	-
Purchase Canadian dollars	CAD	103.5	-	57.2	0.2	-
Purchase Swiss Francs	CHF	51.0	-	31.0	0.3	-
Purchase Euros	EUR	471.2	-	422.4	14.0	-
Purchase US dollars	USD	691.1	-	501.1	-	(18.9)
Purchase Norwegian Krona	NOK	80.0	-	8.0	0.3	-
Purchase Swedish Krona	SEK	543.7	-	44.5	1.4	-
Sell Japanese Yen	JPY	(152,700.1)	1,061.6	-	-	(18.4)
Sell Australian dollars	AUD	(853.7)	377.4	-	-	(34.4)
Sell Canadian dollars	CAD	(291.4)	160.9	-	-	(0.8)
Sell Swiss Francs	CHF	(771.0)	465.7	-	-	(8.4)
Sell Czech Koruna	CZK	(1,465.5)	45.4	-	-	(3.9)
Sell Euros	EUR	(2,900.0)	2,589.7	-	-	(96.4)
Sell Norwegian Krona	NOK	(710.0)	71.0	-	-	(2.2)
Sell Swedish Krona	SEK	(1,194.0)	96.6	-	-	(4.1)
Sell US dollars	USD	(5,843.7)	3,749.4	-	-	(327.2)
			8,617.7	**1,193.0**	**32.4**	**(514.7)**

Forward contracts to:

		Currency bought millions		Currency sold millions	Asset £m	Liability £m
Sell US dollars for Norwegian Krona	NOK	25.8	USD	4.0	-	(0.2)
Sell Swiss Francs for Australian dollars	AUD	33.7	CHF	25.8	0.5	-
Sell US dollars for Australian dollars	AUD	5.7	USD	4.0	-	-
Sell US dollars for New Zealand dollars	NZD	7.1	USD	4.0	-	-
Sell Australian dollars for US dollars	USD	1.8	AUD	2.9	-	(0.1)
Sell Swiss Francs for US dollars	USD	3.9	CHF	4.4	-	-
Sell Japanese Yen for US dollars	USD	3.6	JPY	347.0	0.1	-
					0.6	(0.3)
					33.0	**(515.0)**

The objective of the forward currency contracts is to hedge the currency risk relating to overseas investments. This is to achieve a better match between the fund's assets and its future liabilities. The contracts have settlement dates of up to six months after the year end.

16. Property

	2009 £m	2008 £m
UK completed properties	669.9	873.2
UK developments in progress	4.3	4.6
	674.2	**877.8**
Properties analysed by type:		
Freehold	605.6	782.1
Leasehold	68.6	95.7
	674.2	**877.8**

The completed properties and developments in progress have been valued on the basis of market value as at 31 March 2009 and 31 March 2008 for accounts purposes by Drivers Jonas LLP acting as independent valuers. The valuations have been undertaken in accordance with the RICS Valuation Standards (6th edition).

17. Other investment balances (assets)

	2009 £m	2008 £m
Amount due from stockbrokers	137.0	101.0
Dividends and accrued interest	112.6	185.2
Margin balances	81.0	11.2
	330.6	**297.4**

18. Derivative contracts (liabilities)

	Notes	2009 £m	2008 £m
Options	15 (a)	(0.6)	(0.9)
Futures contracts	15 (b)	(2.1)	-
Swaps	15 (c)	(12.2)	-
Forward Foreign Exchange Contracts	15 (d)	(515.0)	(371.9)
		(529.9)	**(372.8)**

19. Other investment balances (liabilities)

	2009 £m	2008 £m
Amount due to stockbrokers	(91.7)	(143.1)
Margin balances	(0.1)	-
	(91.8)	**(143.1)**

20. Current assets

	2009 £m	2008 £m
Contributions due from institutions:		
- employers' contributions	69.1	64.0
- members' basic contributions	28.2	25.9
- members' additional voluntary contributions	3.8	3.2
Other debtors	9.1	18.1
Cash at bank and in hand	10.9	8.8
	121.1	**120.0**

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

21. Current liabilities

	2009 £m	2008 £m
Rents & service charges received in advance	(10.2)	(5.0)
Property revenue expenses payable	-	(0.1)
Amount due on property purchases	(1.9)	(3.0)
Benefits payable	(25.7)	(26.7)
Taxation creditor	(1.6)	(1.7)
Other creditors	(5.9)	(5.6)
Due to trustee company	(6.4)	(10.0)
	(51.7)	**(52.1)**

22. 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.

	2009 £m	2008 £m
Value of stock on loan at 31 March	1,480.9	5,558.5
Value of collateral held at 31 March	1,585.0	6,063.6

23. Financial commitments

	2009 £m	2008 £m
Property		
Contracts placed but not provided for	107.8	33.1
Pooled investment vehicles - securities		
Outstanding commitments to private equity partnerships	3,152.9	2,206.7

These represent amounts subscribed and committed to private equity partnerships that had not been drawndown at the year end.

	2009 £m	2008 £m
Securities		
Forward commitments for unpaid calls on securities and underwriting contracts	112.1	-

24. Self investment

The scheme had no employer related investments during the year.

25. 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 £16.3 million and £28.3 million respectively, with a balance due from the scheme of £6.4 million as at 31 March 2009.

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 Occupational 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 (revised May 2007)".

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 21 July 2009

Martin Harris	T H Merchant
Chairman	*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 2009

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 2008 to 31 March 2009 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

Employer	£m
Normal contributions	496.2
Salary sacrifice contributions	349.4
Special contributions	0.7
Additional contributions	29.2

Member	
Normal contributions	225.2
Additional contributions	0.9
Contributions payable under the schedule (as reported on by the scheme auditor)	1,101.6

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	1,101.6
Contributions payable in addition to those payable under the schedule (and not reported on by the scheme auditor): Member additional voluntary contributions (including those paid to the Prudential)	104.3
Total contributions (including premature retirement scheme receipts) reported in the financial statements	1,205.9

Signed on behalf of the trustee on 21 July 2009

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 2009 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 76, 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 2009 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

21 July 2009

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 2009 which is set out on page 77.

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 77, 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 in all material respects been paid at least 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 2009 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

21 July 2009

Five Year Summary - Fund Accounts

for years ended 31 March (restated)

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Contributions & Benefits					
Contributions	1,190	1,070	960	855	800
PRS receipts	16	20	28	26	32
Transfers in	151	131	144	148	232
	1,357	**1,221**	**1,132**	**1,029**	**1,064**
Benefits Payable					
Pensions	822	758	706	665	620
Lump sums	239	209	193	128	127
Transfers out	39	34	42	36	56
Refunds	3	3	3	2	2
	1,103	**1,004**	**944**	**831**	**805**
Investment Income (net of investment management costs)	838	926	789	666	572
Administration Costs of the trustee (excluding investment management costs)	16.3	14.3	12.9	11.8	9.1
Changes in Value of Investments	(8,479)	(2,389)	897	5,730	1,494
Investments of the Fund (at current values) at 31 March					
Securities	16,864	25,080	27,020	25,163	19,037
Pooled investment vehicles	2,548	1,879	1,343	1,624	559
Derivatives	(478)	(337)	(31)	(2)	(1)
Property	674	878	1,163	1,043	1,702
Money purchase AVC investments	286	256	220	195	175
Cash deposits	1,491	1,120	291	302	282
Other investment balances	239	154	279	116	105
	21,624	**29,030**	**30,285**	**28,441**	**21,859**

Note: The prior year comparative figures for 2008 and earlier years have been restated to reflect both the reclassification of amounts transferred from the Prudential to USS on members' retirement for inclusion within USS benefits and to separately disclose derivative instruments in accordance with the revised SORP.

Five year summary continued

Membership Numbers at 31 March	2009	2008	2007	2006	2005
Contributing members	133,400	126,400	121,200	115,600	110,000
Pensioners	52,000	49,900	47,200	44,700	42,200
Deferred pensioners	78,700	76,400	70,700	66,100	62,700
	264,100	**252,700**	**239,100**	**226,400**	**214,900**

Trustee's Funding Statement

to members for the year ended 31 March 2009

Introduction

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

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.

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).

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.

Overview

The key points in the statement are:

- 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.
- 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).
- 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.
- 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.
- The current financial position of the scheme is simply a 'snapshot' as at the valuation date and can vary in the future depending on the actual experience of the scheme.
- The 31 March 2008 actuarial valuation has recently been completed. Under the new funding regime the trustee must agree the "technical provisions" of the scheme. The actuary has advised that on the scheme's technical provisions funding basis, the assets in the scheme amount to £28,842.6 million and this covers 103% of the accumulated liabilities based on pensionable service to the valuation date and salaries projected through to retirement.
- On the scheme's historic funding basis, the assets in the scheme amount to £28,842.6 million and this covers 71% of the accumulated liabilities based on pensionable service to the valuation date and salaries projected through to retirement.

- This indicates that the financial security of the scheme has worsened since the 2005 valuation at which the funding level on the historic basis was 77%. The fall in the funding level is largely due to the significant change in market conditions (primarily inflation) since the 2005 valuation despite higher than expected investment returns achieved by the scheme during the inter-valuation period.
- In addition to the technical provisions and historic funding bases, 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 2008 was 104% whilst the PPF coverage was 107%.
- Shown below is a summary of the scheme funding level under the various different valuation bases at 31 March 2005 and 31 March 2008:

Funding basis	31 March 2005 %	31 March 2008 %
Technical provisions	N/A	103
Trustee's historic basis	77	71
FRS 17	90*	104*
PPF	110	107
Solvency	74	79

*Funding levels marked with an * have been provided by the scheme actuary on an estimated basis.*

Benefits provided by the scheme

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.

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. The trustee has reviewed the transfer basis and is implementing changes to take place with effect from April 2009.

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.

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

Assessing the required contributions

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.

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.

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

Funding position as at 31 March 2008

An actuarial valuation of the scheme was carried out as at 31 March 2008. The actuary has reported that the contributions required to meet each extra year's accrual of pension amounted to 22.35% of pensionable salary. This rate of contribution can be adjusted to reflect any surplus or deficit currently in the scheme. At the valuation date the actuary reported a surplus of £707.3 million on the technical provisions basis. The assets in the fund amounted to £28,842.6 million and this covered 103% 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 agreed with the institutions as appropriate for regulatory purposes and against which the Pensions Regulator might measure the prudence of the trustee's funding plans.

At the same time the trustee has retained its historic long term funding target which makes no advance allowance for expected out-performance of equities relative to gilts. On the trustee's historic funding basis, the assets in the fund covered 71% of the liabilities, giving a deficit of £11,776.6 million. The trustee's long-term funding and contribution strategy is aimed at delivering 100% coverage on this gilt basis.

The actuarial assumptions - technical provisions

The funding level has been determined using a range of actuarial assumptions, the key ones of which as at 31 March 2008, were:

- An investment return of 6.4% for determining past liabilities;
- An investment return of 6.1% for determining the cost of future accruals;
- Salary growth of 4.3% plus an allowance for promotional increases;
- An inflation assumption of 3.3%;
- Assets taken at market value.

An additional allowance by way of a promotional salary scale was made for increases in salaries over and above the general allowance of 1% in excess of price inflation. Analysis of recent salary information has shown that there has been a more rapid progression of salary increases from that allowed for at the 2005 valuation. This time round, therefore, the actuary has made a further cautionary reserve of £1.35 billion in the active members' past service liabilities but maintained the previous salary scale for projecting future service accrual costs. Further analysis of the promotional salary scale will be carried out to determine whether the recent experience has been a temporary phenomenon or represents a genuine long-term trend.

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 2008 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.

The 2008 valuation also saw the adoption of a revised mortality table. Allowance was made for generally improving mortality trends and the experience of the scheme with the up to date mortality table, PA92 Year of Birth tables with medium cohort improvements for both retired and non-retired members, being used. The tables are rated down one year for male members. The assumed life expectations on retirement for members currently aged 65 are 23 years for males and 25 years for females.

A further feature of the 31 March 2008 valuation is that the assumed average age of members retiring has risen from 60 at 31 March 2005 to 62 as a result of the introduction of the early retirement funding charge. Analysis of experience data since the 2005 valuation revealed that the withdrawal and ill-health retirement assumptions were very much on the conservative side. These assumptions have been amended as a result, although we still expect the assumptions to be conservative compared to future actual USS experience as margins have still been retained in these assumptions.

All assumptions will be reviewed by the trustee company from time to time and in particular at the next formal actuarial valuation of the scheme at 31 March 2011, but the strategy will be to maintain a large degree of prudence in the overall long-term funding assumptions.

Alternative funding bases

It should be appreciated that there is a range of measures that can be used to determine the funding level of the scheme.

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 2008 the scheme was approximately 104% funded under the FRS17 formula compared with 90% at the 2005 actuarial valuation.

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 2008 the scheme was 107% funded in terms of the PPF regulations, while at 31 March 2005 the scheme was 110% funded.

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 2008, the actuary calculated that the value of the scheme's assets represented 79% of the cost of the liabilities calculated on a solvency basis compared with 74% at the 31 March 2005 valuation.

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.

Funding position at 31 March 2009

Since 31 March 2008 equity markets have fallen considerably with a consequent detrimental effect on the funding position of the scheme. At 31 March 2009 the actuary has estimated that the funding level had fallen to 74% on the technical provisions basis, equivalent to 51% on the historic gilts basis. On the FRS17 accounting basis the actuary estimated that the funding level at 31 March 2009 was about 86%.

What does the valuation shortfall really mean?

The valuation shortfall on the historic basis 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 which are expected to deliver superior returns. Acting on actuarial and investment advice, following the valuation at 31 March 2008 the trustee company decided to leave the shortfall to be addressed by investment performance rather than increasing contributions but also proposed an increase in the future service contribution rate, needed to finance continued accrual of benefits for service post March 2008, by 2%. This increase in contributions will take effect from October 2009.

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 out-performance over gilts over long periods. The USS fund is well placed to ride any short-term volatilities as it has a very positive cash flow, with contribution income and dividend receipts well in excess of the level of benefits to be paid out of the scheme each year, for the foreseeable future. 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 extremely strong. Taking these factors into account it was the trustee company's view that the funds held as at 31 March 2008 were likely to be sufficient to meet existing accrued liabilities as was evidenced by the revealed funding level on the regulatory technical provisions of 103%.

In the light of the recent financial turmoil in equity markets, however, the trustee is monitoring this closely and the possibility of having to impose deficit contributions on institutions at the 2011 valuation cannot be ruled out.

Legislative requirements

The new scheme funding requirements for UK final salary (also known as defined benefit) 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 previous USS valuation as at 31 March 2005 but did apply to the 31 March 2008 USS valuation which has just been completed.

The objective of the new requirements is to have sufficient and appropriate assets to cover a scheme's "technical provisions". Trustees are required to adopt prudent assumptions to assess the technical provisions.

Where a scheme is in deficit, there will need to be a plan in place to restore the funding level. This is known as the "recovery plan", and the timeframe for rectifying the deficit is the "recovery period". In determining a recovery plan, trustees are directed to aim for elimination of the shortfall as quickly as is reasonably possible.

As part of the new requirements, USS is required to publish a statement of funding principles in addition to this summary statement and the first such statement is included in the formal valuation report containing the 2008 valuation results.

Agreed contributions

Following the actuarial valuation as at 31 March 2008 the contribution rate paid by the institutions is to be increased to 16% of pensionable salaries, with effect from October 2009.

Certificate of Technical Provisions

Certification

Certificate of technical provisions

Name of Scheme	Universities Superannuation Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 31 March 2008 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles.

Signature	
Name	E S Topper
Date of signing	4th February 2009
Address	Mercer Limited Clarence House, Clarence Street Manchester M2 4DW
Qualification	Fellow of the Institute of Actuaries

Report of the Directors

for the year ended 31 March 2009

The directors submit their report and the accounts for the year ended 31 March 2009.

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 £44,583,000 this amount being recoverable from USS. This compares with £40,624,000 for the year ended 31 March 2008 and represents a 14% increase in administration costs and a 8% increase in investment costs. Membership of USS has continued to grow steadily and during the past twelve months has increased from 252,000 to 264,000, an increase of 5%.

Personnel costs increased in both Liverpool and London. In Liverpool, there have been staff increases in IT in particular, much of it temporary and related to the ePensions initiative and the further development of our new pensions administration system, both of which will lead to increased efficiency and long-term cost savings. There has also been a strengthening of the management team in the pensions department, additional staff in pensions policy and communications departments, and additional staff recruited in the investment accounts section as a result of the increased investment in alternative assets.

In London, staff numbers increased from 44 at the start of the year to 57 at 31 March 2009. Much of the increase related to the continued build up of the alternatives investment team, with new recruits to the private equity team and a hedge fund manager, together with an in-house lawyer. The property and RI teams were also strengthened and a head of risk appointed to monitor and report on investment risk across all the internally managed portfolios.

The other main increase in costs in Liverpool was in professional fees. Actuarial costs were increased partly because this was the year of the triennial actuarial valuation. This was the first valuation carried out under the new scheme specific funding regulations and involved the trustee company and the actuary in a greater degree of formal consultation with the employers than in previous valuations. Legal costs have also increased, with the primary reason being the successful completion during the year of a major exercise to rewrite the scheme rules. Both the actuary and solicitor have also been involved in providing information to the joint review group of employer and member representatives who have been reviewing possible future options for USS to ensure it remains attractive and affordable. A further increase in professional fees has been the involvement of Deloitte in providing internal audit services to the trustee company, firstly through the temporary secondment of a head of internal audit and subsequently through the operation of a co-source arrangement whereby Deloitte carried out internal audit work in the areas of IT and investments, reporting to the newly appointed head of internal audit. Deloitte also provided assistance in refining our approach to risk management.

Within investment costs, there has been a decrease in the cost of external management with the internally managed team now responsible for almost 90% of the assets that are actively managed.

There continues to be a considerable amount of work on systems initiatives in both Liverpool and London offices. In Liverpool, the new pensions administration system, UPM2, which went live in January 2008, has been bedding in during the year. The investment in UPM2 and the ePensions initiative referred to below is intended to improve productivity as scheme membership continues to grow. Staff and institutions are now seeing the benefits of the new system, but there has inevitably been a learning period. UPM2 is much more configurable than its predecessor, and inevitably in its first year, there has been a lot of time spent on refining and improving the system as staff become aware of its capabilities. Staff resources had to be directed towards the further development of UPM2 - testing system changes, working on specifications, and undergoing training initiatives to familiarise themselves with the upgraded processes. This meant that certain resources usually available to carry out the ongoing business processes were utilised instead on UPM2. This has had an affect on the overall productivity levels of day to day processes carried out across the company, and will have impacted on productivity in the year.

Running in parallel with the improvements to UPM2 has been work on progressing our ePensions initiative. This will radically change the way that both we and our participating employers work, with employers able to access the USS systems and initiate or run certain processes themselves. It has a more ambitious scope than any project we have hitherto undertaken, and we have experienced a number of revisions to our specifications as our knowledge of what we can deliver has developed. This has resulted in a delay to our original timetable for delivery but the new website went live on 23 June 2009 replacing the non-secure parts of the existing website, and we expect the first phase of the interactive part of the website to be available in the Autumn of 2009. It will be rolled out to institutions gradually, one institution at a time, to ensure there is no detriment to in-house processing.

In the London office, work has continued with the implementation of a fully integrated trading and settlement system. Phases 1 and 2 of the project have been implemented and both the front and back offices are now integrated. The remaining two phases of the project, to link in the custodian and investment accounting, are on schedule to be completed during 2009.

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)	Virginia Holmes
Professor John Bull (deputy chairman)	Howard Jacobs
Michael G Butcher	David McDonnell
Joseph Devlin	Lady Merrison
Professor David Eastwood	Sir Muir Russell
David Guppy	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 will be deemed to be re-appointed in accordance with section 487 (2) of the Companies Act 2006.

By order of the board

I M Sherlock
Company Secretary 21 July 2009

Statement of Operating Costs

for the year ended 31 March 2009

	Note	2009 £000	2008 £000
Personnel costs			
Employees' emoluments	4	12,665	10,543
Directors' emoluments and expenses	5	552	517
Recruitment, training and welfare		795	600
		14,012	**11,660**
Premises costs			
Rent, rates, service charges and utilities		1,752	1,709
Depreciation and maintenance		154	210
		1,906	**1,919**
Investment costs			
Securities research costs	6	6,418	6,385
Securities management	7	4,386	6,642
Property management	8	2,226	1,067
Custodial services		1,101	1,018
Legal costs - property management		599	446
- securities management		471	476
Investment performance measurement		132	112
Property valuation		97	135
		15,430	**16,281**

Statement of operating costs continued

	Note	2009 £000	2008 £000
Other costs			
Computer and information services costs	9	3,612	2,829
Pension Protection Fund Levy		3,382	3,800
Professional fees	10	3,257	1,744
Travel and car costs		961	604
Office equipment		313	285
Pensions Protection Fund - admin Levy		307	168
- general Levy		238	245
Institution liaison and member communication		256	362
Telephones and postage		238	241
Sundry expenditure		224	114
Printing and stationery		193	184
Insurances		132	109
FSA fees		68	58
Auditors' remuneration	11	59	57
Profit on disposal of fixed assets		(5)	(36)
		13,235	**10,764**
Total operating costs	**13**	**44,583**	**40,624**

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 97 to 109 form part of these financial statements.

Balance Sheet

as at 31 March 2009

	Note	2009 £000	2008 £000
Assets			
Fixed assets			
Tangible fixed assets	14	1,889	1,149
Current assets			
Debtors	15	9,010	11,895
Cash at bank and in hand		5	2
		9,015	**11,897**
Total assets		**10,904**	**13,046**
Liabilities			
Creditors - amounts falling due within one year	16	10,774	13,046
Creditors - bonuses due after more than one year	17	130	-
Total liabilities		**10,904**	**13,046**

The notes on pages 97 to 109 form part of these financial statement.

The financial statements on pages 93 to 109 were approved by the board of directors on 21 July 2009 and were signed on its behalf by:

Martin Harris
Chairman

John Bull
Deputy Chairman

Cash Flow Statement

for the year ended 31 March 2009

	Note	2009 £000	2008 £000
Operating activities			
Cash received from USS		48,202	40,500
Operating costs paid	18	(46,707)	(39,745)
Net cash inflow from operating activities		**1,495**	**755**
Capital Expenditure and Financial Investment			
Purchase of tangible fixed assets		(1,510)	(854)
Sale of tangible fixed assets		18	99
		(1,492)	**(755)**
Increase in cash		**3**	**-**

The notes on pages 97 to 109 form part of these financial statement.

Notes to the Accounts

for the year ended 31 March 2009

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 trustee of USS.

2 Format of the 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 33⅓
Motor cars	25
Computer software	33⅓

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

The company participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, 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.

4 Employees' emoluments

	2009	2008
The average weekly number of persons employed by the company during the year (excluding directors) was	216	198

	£000	£000 restated
Staff costs for the above persons were:		
Wages and salaries	9,989	8,513
Pension costs (superannuation contributions)	1,604	1,205
Social security costs (national insurance contributions)	939	820
Restructuring costs	133	5
	12,665	**10,543**

Details of the increase in employee costs are included in the operating costs and review of activities section of the report of the directors.

	2009 £000	2008 £000
Emoluments of the chief executive		
TH Merchant	251	240

In September 2007 the company implemented a salary sacrifice scheme in respect of pension contributions. Since that date employees who are members of USS have been able to forgo salary and reduce their pension contributions. The company makes additional pension contributions to ensure the overall level of contributions to the fund is maintained. Prior year figures have been restated to reflect the actual payments under the scheme.

The emoluments of the chief executive are shown on the same basis as for higher paid staff. The company's pension contributions for the chief executive amounted to £50,646 (2008: £42,235).

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

			2009	2008
£70,001	-	£80,000	2	1
£80,001	-	£90,000	-	2
£90,001	-	£100,000	7	5
£100,001	-	£110,000	3	2
£110,001	-	£120,000	2	1
£120,001	-	£130,000	2	3
£130,001	-	£140,000	6	3
£140,001	-	£150,000	7	5
£150,001	-	£160,000	2	-
£160,001	-	£170,000	1	1
£170,001	-	£180,000	1	2
£180,001	-	£190,000	2	1
£190,001	-	£200,000	2	1
£200,001	-	£210,000	-	1
£220,001	-	£230,000	2	-
£240,001	-	£250,000	-	2
£320,001	-	£330,000	1	-
£650,001	-	£660,000	-	1

The salary figures above include bonus payments for the investment staff, totalling £1,756,147 (2008: £1,730,744). Both the bonus scheme and the annual outcome are reviewed by the remuneration committee.

5 Directors' emoluments and expenses

		2009 £000	2008 £000
Fees		452	434
Employer's costs	- national insurance contributions	49	43
	- VAT	3	5
Expenses		48	35
		552	**517**

Directors are remunerated based on a recommendation from an independent consultant. Their remuneration is approved by the Joint Negotiating Committee and is in accordance with the contribution which they make to the work of the company and their legal responsibilities.

No pension contributions are made on behalf of directors. As at 31 March 2009 six 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:

	2009 £000	2008 £000
Sir Martin Harris (chairman)	67	58
Virginia Holmes	76	74
Howard Jacobs	62	60
Professor John Bull (deputy chairman)	58	50
Michael G Butcher	43	44
Lady Merrison	43	37
Baroness Warwick of Undercliffe	26	25
David Guppy	24	20
David McDonnell	23	21
Joseph Devlin	21	8
Professor David Eastwood	14	13
Sir Muir Russell	14	7
Professor Charles Sutcliffe	-	11
Professor Sir Ivor Crewe	-	6
	471	**434**

6 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.

7 Securities management

	2009 £000	2008 £000
External manager base fees	3,975	6,285
Extrnal manager performance fees	-	161
Professional fees	411	196
	4,386	**6,642**

8 Property management

	2009 £000	2008 £000
External manager fees	1,574	969
Rent review and letting fees	515	36
Other	137	62
	2,226	**1,067**

The rent review and letting fees in 2008 included a write back of £655,000 in respect of creditors dating back over a number of years that are no longer payable.

9 Computer and information services costs

	2009 £000	2008 £000
Investment information services	1,808	1,312
Computer running costs	891	812
Software depreciation	374	254
Investment accounting services	337	319
Hardware depreciation	161	114
Computer bureau fees	41	18
	3,612	**2,829**

10 Professional fees

	2009 £000	2008 £000
Actuarial	1,350	647
Legal	862	475
Internal audit co-source fees	178	-
Committee members (other than directors)	159	104
Taxation	127	100
Public relations	108	67
Salary surveys and job evaluation	94	65
Secondment of internal auditor	78	-
Member medicals	62	51
Strategic planning	46	106
Risk review	35	-
Web site consultancy	33	-
Strategic review of internal audit	23	-
Governance review	-	45
Other	102	84
	3,257	**1,744**

11 Auditors' remuneration

	2009 £000	2008 £000
USS	54	52
Universities Superannuation Scheme Limited	5	5
	59	**57**

Remuneration of the company's auditors (KPMG LLP) for provision of services other than for the audit of the scheme and the company was £40,000 for advice on recovery of overseas withholding tax, £23,300 for a review of internal audit and £5,500 for trustee training (2008: £26,250 for advice on taxation).

12 Value added tax

The company 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

		2009 £000	2008 £000
Investment management costs	Investment costs	15,430	16,281
	Personnel costs	7,382	5,969
	Premises costs	1,076	1,079
	Other costs	4,369	2,951
		28,257	**26,280**
Other administration costs	Personnel costs	6,630	5,691
	Pensions Protection Fund levies	3,927	4,213
	Premises costs	830	840
	Other costs	4,939	3,600
		16, 326	**14,344**
		44,583	**40,624**

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

Included in operating costs is a charge for depreciation of £757,000 (2008: £622,000) as set out in note 14.

All of the operating costs are recoverable from USS, which at 31 March 2009 had total assets in excess of £21 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 2008	2,128	1,999	2,777	1,675	367	8,946
Additions	-	251	1,092	91	76	1,510
Disposals	-	-	-	-	(49)	(49)
At 31 March 2009	**2,128**	**2,250**	**3,869**	**1,766**	**394**	**10,407**
Accumulated depreciation						
At 1 April 2008	2,104	1,844	2,337	1,418	94	7,797
Charge for year	10	135	399	118	95	757
Disposals	-	-	-	-	(36)	(36)
At 31 March 2009	**2,114**	**1,979**	**2,736**	**1,536**	**153**	**8,518**
Net book Value						
At 31 March 2009	**14**	**271**	**1,133**	**230**	**241**	**1,889**
Net book Value						
At 31 March 2008	24	155	440	257	273	1,149

15 Debtors

	2009 £000	2008 £000
Due from USS	6,415	10,034
Prepayments	2,550	1,824
Other debtors	45	37
	9,010	**11,895**

16 Creditors - amounts falling due after more than one year

	2009 £000	2008 £000
Accured expenditure	2,995	8,552
Other creditors	6,628	3,328
Taxation and social security	1,151	1,166
	10,774	**13,046**

17 Creditors - bonuses due after more than one year

The bonus scheme provides that if the performance bonus earned by an employee exceeds a certain amount, part of it is deferred for a period of three years.

18 Reconciliation of operating costs paid

	2009 £000	2008 £000
Operating costs - recoverable from USS	44,583	40,624
Decrease in creditors	2,142	275
Profit on sale of tangible fixed assets	5	36
Depreciation	(757)	(622)
Increase/(decrease) in debtors (excluding USS)	734	(568)
Operating costs paid	**46,707**	**39,745**

19 Operating lease commitments

The company is commited to making future annual payments under operating leases which expire as follows:

	2009 £000	2008 £000
Less than one year	-	-
Between two and five years	37	28
Over five years	1,255	1,255

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

20 Contingent liability

A long term incentive plan (LTIP) for investment staff was introduced from 1 January 2007 to ensure that a significant portion of the rewards available to key members of staff is tied to the long-term performance of the fund, with the objective of promoting a balance between long-term and short-term objectives. The LTIP operates as a series of individual five-year plans (although this period may be reduced for staff who retire).

Two further plans were introduced from 1 January 2008 and 2009 respectively, and the targets for all three plans, for the five years to 31 December 2011, 2012 and 2013 respectively, are for the internally managed fund to outperform its benchmark over each of those five year periods by 0.6% per annum.

For the two years to 31 December 2008, the internally managed fund outperformed by 2.4% in 2007 and underperformed by 2.25% in 2008. The first payments are not anticipated to arise before March 2012, and would depend on outperformance over each five year period.

It is currently considered that the likelihood that payments will be made from these plans is low, because the target set for outperformance will be difficult to achieve. No provision has therefore been made in the accounts, although this will need to be reviewed annually in the light of actual performance.

The maximum amounts that could be paid are £630,000 in 2012, £825,000 in 2013 and £450,000 in 2014.

21 Pension costs

The company participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is 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 board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

Because of the mutual nature of the scheme, 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 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions.

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 (ie the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historic Scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

Standard mortality tables were used as follows:

Male members' mortality	PA92 MC YoB tables - rated down 1 year
Female members' mortality	PA92 MC YoB tables - no age rating

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

Males (females) currently aged 65	22.8 (24.8) years
Males (females) currently aged 45	24.0 (25.9) years

At the valuation date, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets therefore were sufficient to cover 103% 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. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 107% funded; on a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% 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, using a AA bond discount rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset outperformance over gilts of 1.7% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance for promotional salary increases was not as high. There is currently uncertainty in the sector regarding pay growth. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

The company contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, agreed to increase the institution contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fall and at 31 March 2009 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 74%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the year and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS17 basis, using a AA bond discount rate of 7.1% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2009 was 86%. An estimate of the funding level measured on a buy-out basis at that date was approximately 46%.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out as follows:

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 £1.5 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.7 billion
Rate of mortality	More prudent assumption (move to long cohort future improvements from the medium cohort adopted at the valuation)	Increase by £1.6 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 participating 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 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

At 31 March 2009, USS had over 130,000 active members and Universities Superannuation Scheme Limited had 189 active members participating in the scheme.

The total pension cost for the company was £1,121,000 (2008: £958,000). The contribution rate payable by the company was 14% of pensionable salary.

21 Related party transactions

There are no related party transactions other than transactions between the company and the scheme. The company provides administration and investment management services to the scheme charging £16.3 million and £28.3 million respectively, with a balance due from the scheme of £6.4 million at 31 March 2009.

22 Special purpose companies

The company 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 the company's because they are considered to be assets of the fund. Details of these companies may be obtained by writing to the Company Secretary of Universities Superannuation Scheme Limited, 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 2009 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 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 91.

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 2009 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

21 July 2009

Chairman & Principal Officers

Sir Martin Harris
Chairman

Chairmen of principal sub-committees

Virginia Holmes
Investment Committee

Professor John Bull
Finance & Policy Committee
Nominations Committee

Michael Butcher
Audit Committee

Howard Jacobs
Remuneration Committee
Rules Committee

Sir Andrew Cubie
Joint Negotiating Committee

Angela Roger
Advisory Committee

Principal Officers

Group is from (at the back) Ian Sherlock, Company Secretary, Tom Merchant, Chief Executive, Colin Busby, Communications Manager, Andrew Little, Chief Administrative Officer. At the front seated – Brendan Mulkern, Pensions Policy Manager, Bernie Steventon, Pensions Operations Manager and Colin Hunter, Chief Financial Officer

Peter Moon
Chief Investment Officer

USS