USS

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

Report & Accounts

for the year ended 31 March 2011

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 2011 of over £32 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 60 Threadneedle Street, 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


Sir Martin Harris
Chairman


Tom Merchant
Chief Executive

After two years of discussion and negotiation between the employers and UCU, the first major steps to establishing a new section of USS were taken in the year to 31 March 2011.

The discussions between employer and member representatives took place in a joint review group, chaired by the independent chairman of the joint negotiating committee (JNC), Sir Andrew Cubie. The review group was unable to reach a conclusion in the agreed timescale and both sides brought proposals to the JNC meeting in July 2010. The package of proposals put forward by the employers was agreed with the casting vote of the chairman. The proposals were considered by the board at a meeting later in July, at which the board confirmed its acceptance of the proposed scheme changes, acknowledging Sir Andrew's view that they were in the best long-term interests of the scheme as a whole.

A consultation with all affected members and their representatives took place between October and December 2010 and the responses were considered in detail by the board in January 2011. The board suggested a number of modifications in the light of the consultation and these were agreed by the JNC, again with the chairman's casting vote, in May 2011. The changes will come into effect on 1 October 2011 and entail increased employee contributions for current members of the final salary section of the scheme, while joiners after October will enter the career revalued benefits section. Member benefits after this date will be calculated on a retirement age of 65 and a facility of flexible retirement will be provided.

Another notable change during the year was the decision by government to move the basis of pension indexation for 'official pensions', which USS follows, from RPI to CPI from 1 April 2011.

The fund increased by 11.7% in 2010, in line with the scheme's strategic asset allocation benchmark, and well ahead of inflation. The funding level increased from 91% in March 2010 to 98% in March 2011 on the scheme's technical provisions basis. These figures are both measured against the most recent triennial valuation dated March 2008. A further valuation commenced on 31 March 2011, in which further provision is likely to be made for continuing improvements in mortality and the funding level using these revised assumptions is likely to be slightly reduced. Nevertheless, it is pleasing that the fund is in a relatively strong position given the very significant market dislocations of the past few years.

Scheme membership has continued to grow, increasing during the year by 3.9% to 287,500. Scheme membership has grown remarkably during the last 10 years, from 163,600 in 2001, an increase of 76%. Whilst funding cuts in the sector may inhibit the organic growth of the scheme, a new merger policy has been developed, which, coupled with the new career revalued benefits section, may well be attractive to a number of universities wishing to find a stable and sustainable home for their SAT schemes.

The year under review saw the rollout of USSonline to a number of our larger institutions. This allows administrators at universities direct access to USS pension administration systems, which improves service to members and is more efficient and cost effective for those institutions and the scheme. We are grateful to those vanguard institutions for their contribution to the development of USSonline and look forward to the rollout to all USS institutions during the coming year.

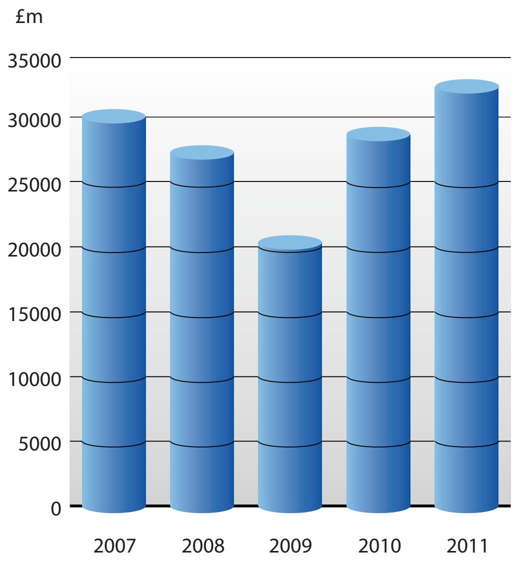
A corporate governance working group was established during the year. The first fruits of this will be the incorporation of our London Investment Office into a wholly owned subsidiary company, USS Investment Management Limited (USSIM). This will give rise to a new group structure: The parent company being Universities Superannuation Scheme Limited as trustee company, regulated by the Pensions Regulator and USSIM being the investment management subsidiary, authorised and regulated by the Financial Services Authority (FSA). This structure will come into place once USSIM receives FSA approval.

Overall costs of operating the trustee company rose from the previous year, reflecting an increased headcount as the scheme has continued to grow in size and complexity and reflecting work on the scheme changes project together with the strengthening of our investment function to meet the growing complexity of the business.

During the year the scheme continued to provide a high level of service to members, with a further 95% of cases being dealt with within five working days. For the first time, USS decided to benchmark our administration performance against relevant peer groups and engaged a professional benchmarking company to carry this out. USS was benchmarked as a high service, low cost scheme, showing USS to be *"particularly cost effective, especially taking into account a high service score presented"*.

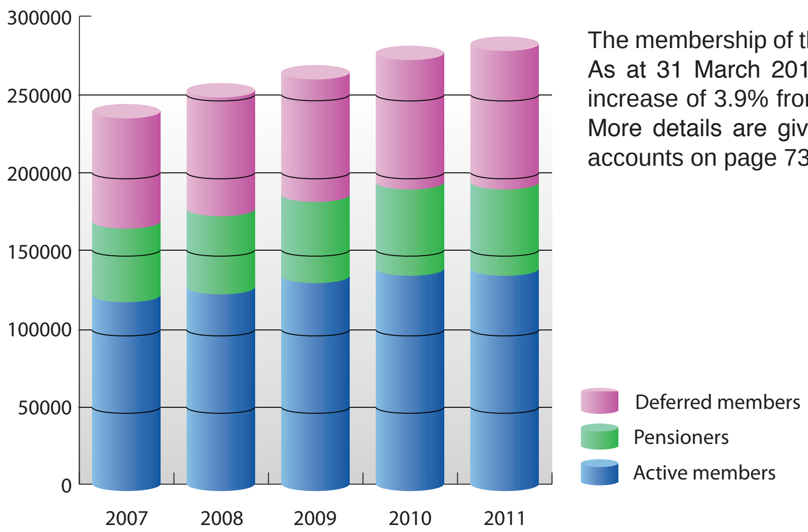
Summary of Year

Fund



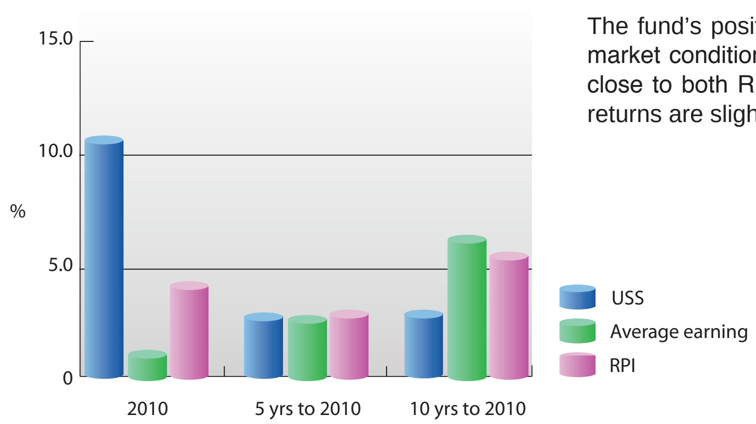
The fund's investments have risen to £32.4 billion as at 31 March 2011 from £29.8 billion in 2010. More details are given in the investment committee report on page 21 and in the five year summary of the fund accounts on page 73.

Membership



The membership of the scheme has continued to grow steadily. As at 31 March 2011 the total membership was 287,500 an increase of 3.9% from last year and 20% from four years ago. More details are given in the five year summary of the fund accounts on page 73.

Performance



The fund's position has continued to recover from the adverse market conditions experienced in 2008. The 5 year returns are close to both RPI and average earnings, although the 10 year returns are slightly below both measures.

Principal Officers and Advisers

The principal officers and advisors of the trustee company at 1 August 2011 are:

Chief Executive
T H Merchant

Chief Investment Officer
R Gray

Chief Financial Officer
D S Webster

Pensions Policy Manager
B J Mulkern

Pensions Operations Manager
B Steventon

Company Secretary
I M Sherlock

Communications Manager
C G Busby

Head of IT
S Grady

Chief Administrative Officer
A R Little

Actuary
E S Topper of Mercer,
Manchester M2 4AW

Solicitors
DLA Piper LLP, Liverpool L2 0NH

Auditors
KPMG LLP, Manchester M2 6DS

Bankers
Barclays Bank plc,
Manchester M2 1HW

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

Solicitors
Lawrence Graham LLP
McGrigors
Proskauer Rose
Linklaters
Mitchells Roberton

Investment managers
Capital International Limited

Investment consultants
Mercer

AVC provider
Prudential Plc

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
DTZ Investment Management

Property valuer
CB Richard Ellis

Computer software
Civica plc
Morse Limited
GSL Limited

PR Consultants
MHP Communications Ltd

Website design
Anthony Hodges Consulting Ltd

Computer hardware
Hewlett Packard PLC

Data recovery
Hewlett Packard PLC

Insurers
Chartis
AIG
Aviva
HSB Engineering
Zurich
Allianz Engineering

Internal Audit
Ernst & Young LLP

Hedge fund administrators
UBS Fund Services

Tax advisors
PricewaterhouseCoopers LLP
KPMG LLP

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 2011 of the principal committees was as follows:

Board

Appointed by Universities UK (UUK)
Sir Martin Harris (Chairman), Professor Glynis Breakwell, Professor David Eastwood, D McDonnell
Appointed by the University and College Union (UCU)
J Devlin, D Guppy, J W D Trythall
Appointed by the Higher Education Funding Councils (HEFCs)
S Egan
Co-opted
Professor John Bull, M Butcher, V Holmes, H R Jacobs

Finance & Policy Committee

Appointed by the board
Professor John Bull (Chairman), J Devlin, Professor David Eastwood,V Holmes, H R Jacobs, J W D Trythall, R Gray, T H Merchant, B J Mulkern, D S Webster

Investment Committee

Appointed by the board
V Holmes (Chairman), G Allen, Professor Glynis Breakwell, Professor John Bull, A Docherty, R Gillson, A Gulliford, D Guppy, Sir Martin Harris

Audit Committee

Appointed by the board
M Butcher (Chairman), Professor John Bull, J Devlin, S Egan, D McDonnell

Remuneration Committee

Appointed by the board
H R Jacobs (Chairman), Professor Glynis Breakwell, M Butcher, J Devlin, D McDonnell

Rules Committee

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

Advisory Committee

Appointed by UUK
C Vidgeon (chairman), Dr A Bruce, A D Linfoot
Appointed by the UCU
Dr A Roger, P Burgess, Dr J Donaghey

Nominations Committee

Appointed by the board
Professor John Bull (Chairman), Professor David Eastwood, D Guppy, Sir Martin Harris

Joint Negotiating Committee

Independent Chairman
Sir Andrew Cubie
Appointed by UUK
Dr A Bruce, P Harding, A D Linfoot, Dr J Nicholls, C Vidgeon
Appointed by the UCU
Dr R Brooks, A Carr G Egan, T Hoad, Dr A Roger

Board Members

Sir Martin Harris, Chairman

Martin Harris (67) 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. He has been Director of the Office of Fair Access since 2004.

Professor John Bull CBE

Professor Bull (71) 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. From 2002 to 2010 he was Chairman of Plymouth Hospitals NHS Trust.

Michael Butcher

Michael Butcher (64) became a co-opted member of the board on 1 November 2004 having retired from IBM where he held a variety of technical, operations and marketing positions in UK and Europe, latterly as Tivoli European Marketing Director. He is a member of both the audit committee and the IT Project Steering Group at Loughborough University.

Steve Egan

Steve Egan (53) is deputy chief executive at the Higher Education Funding Council for England. He was previously director of finance at the National Rivers Authority. He has a degree in banking and finance from Loughborough University, an MBA from Bath University and is a fellow of the Chartered Institute of Management Accountants. Steve is vice chair of the IMHE (the higher education program) of the OECD and trustee of the National Centre for Social Research.

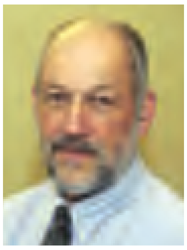
Professor Glynis Breakwell

Professor Glynis Breakwell (59) was appointed Vice-Chancellor of the University of Bath in 2001. As Vice-Chancellor, she is both the academic leader and chief executive of the university.

Professor Breakwell took her PhD from the University of Bristol and DSc from the University of Oxford. In 2003, in recognition of the significance of her contribution to the social sciences, she was awarded an honorary doctorate of laws from the University of Bristol and in 2004 became an Honorary Professor at the University of Shandong in China. She is a psychologist specialising in research on leadership, on identity processes, on risk communication and on military cultures. She has been a Fellow of the British Psychological Society since 1984 and is a chartered health psychologist. In 2002, she was elected an Academician of the Academy of Social Sciences. In 2006, she became one of the Honorary Fellows of the British Psychological Society.

Howard Jacobs

Howard Jacobs (58) became a co-opted member of the board on 1 October 2002 upon his retirement from the solicitors, Slaughter and May, where he specialized in employment law and pensions law. He is also Chairman of the Woolworths Group Pension Scheme, and Deputy Chairman of the Board of Governors of University College Falmouth incorporating Dartington College of Arts.

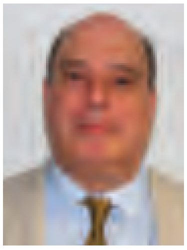


David Guppy

Dave Guppy (67) 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). Until May 2011 he was 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.

David McDonnell CBE DL

David McDonnell (68) is the Vice Lord Lieutenant of Merseyside. Until 2009 he was Global Chief Executive of Grant Thornton. He is currently President of the Council of the University of Liverpool and a director of a number of companies. He was Chairman of National Museums Liverpool for ten years until 2005, when he was made CBE. He is an Honorary Fellow of Liverpool John Moores University. He was High Sheriff of Merseyside 2009/2010. He was appointed a Director of USS in April 2007.



Bill Trythall

Bill Trythall (66) has retired after nearly 40 years teaching History at the University of York. He has had a long involvement in USS, including over 20 years representing the former Association of University Teachers (now UCU) on the Joint Negotiating Committee, membership of the Rules Committee from its inception, and many years as an AUT director of the trustee company up to 2005. He is a former national President of AUT and was subsequently a trustee of the union and of its staff pension fund. He was appointed Pensioner Director in October 2009.

Virginia Holmes

Virginia Holmes (51) 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 (52) became Vice-Chancellor of the University 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. He became a Director of USS in 2007.

Joseph Devlin

Joe Devlin (51) 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-sixth annual report on the progress of USS. Separate reports on the activities of the 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 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 HEFCs and a minimum of two and a maximum of four directors are co-opted directors appointed by the board. UUK, UCU and the HEFCs have the power to remove their respective appointed directors.

The co-opted directors are appointed with the prior approval of the joint negotiating committee. Co-opted directors serve for a maximum of three three-year terms, with the option of a further term in exceptional circumstances (which would then be recorded in this report). Mr Jacobs will have served three, three-year terms by 30 September 2011. At its meeting in September 2010 the board noted that there was likely to be a significant number of rule changes emanating from the scheme changes and agreed that it would be appropriate for Mr Jacobs, as chairman of the rules committee, to remain on the board to progress these changes. The board agreed to reappoint Mr Jacobs for an additional year to 30 September 2012.

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 company's offices in Liverpool and London where they take part in an induction programme and receive information on the company and the role they are expected to undertake and meet key members of the management team. Directors are required to undertake appropriate trustee training both initially and on an ongoing basis, and receive 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 each of the principal committees have an individual skills requirement matrix, which identifies the knowledge areas and levels of knowledge expected for members of the board and each committee. Each committee chairman reviews the skills matrix for their committee annually and assesses the members of the committee against the skills matrix. Where appropriate, training sessions are 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. 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 during the year. Recent topics included the valuation of alternative assets, derivatives, mortality, risk, actuarial valuation, taxation changes and pension obligations for employers.

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, participating employers and other beneficiaries 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 employer contribution rate and determining the schedule of contributions;
- determining the investment policy and investment management structure of the fund including the statement of investment principles;
- 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 amendments to the scheme rules for recommendation to the joint negotiating committee and considering amendments to the scheme rules recommended by the joint negotiating committee;
- approving scheme mergers and major capital expenditure;
- oversight of the company's operations;
- 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);
- approving the appointment of members of committees of the board and senior management;
- approving staff remuneration policy;
- the admission of new institutions and removal of existing institutions;
- determining policy, and making decisions where appropriate, on the treatment of participating employers which leave the scheme;
- determining interest rates to be charged or paid in specific circumstances;
- the appointment of professional advisers; and
- deciding, where appropriate, on the compromise of any claims in excess of £50,000 (above £200,000 funding council approval is also 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 the exercise of trustee company discretion in the determination and payment of benefits;
- 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	Investment	F&PC	Audit	Remuneration	Rules	Nominations
Sir Martin Harris	6(6)	6(6)	-	-	-	-	3(3)
Professor John Bull	6(6)	5(6)	4(4)	4(4)	-	-	3(3)
Professor Glynis Breakwell	6(6)	1(1)	-	-	2(2)	-	-
Michael Butcher	6(6)	-	-	4(4)	2(2)	-	-
Joe Devlin	6(6)	-	1(1)	4(4)	2(2)	-	-
Professor David Eastwood	6(6)	-	4(4)	-	-	-	3(3)
Steve Egan	5(6)	-	-	3(4)	-	-	-
Dave Guppy	3(6)	0(1)	3(4)	-	-	-	3(3)
Virginia Holmes	6(6)	6(6)	4(4)	-	-	-	-
Howard Jacobs	6(6)	5(5)	4(4)	-	2(2)	7(7)	-
David McDonnell	6(6)	-	-	4(4)	2(2)	-	-
Bill Trythall*	6(6)	-	4(4)	-	-	7(7)	-

* Mr Trythall attended five meetings of the rules committee in the previous year which were not included in the table in last year's report.

Regular reports and papers are circulated to board and committee members in a timely manner in preparation for all board and committee meetings. These papers are supplemented by information specifically requested by directors and 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 2011 there were 386 institutions which participate in USS under an appropriate 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 245 other institutions.

Changes in institutions participating occurred as follows:

New participating institutions:

The Cambridge Venue Company Limited
Ifm Education And Consultancy Services Limited
Southampton Solent University

Institutions which ceased to participate:

International Institute of Biotechnology
Care Coordination Network UK
Picker Institute Europe
Policy Studies Institute
Oxford Policy Institute
Technology Innovation Centre
Amaethon Limited
Aston Academy of Life Sciences
Bristol Zoo Gardens
Macrobert Arts Centre Ltd

Scheme membership

During the year 18,584 new members joined the scheme and at 31 March 2011 the total membership, including pensioners and those entitled to deferred benefits, was 287,500 compared with 277,000 a year earlier. Further details of the changes in membership during the year are contained in the section "Membership Statistics" on page 39 and over the five years ended 31 March 2011 in the Summary on page 73.

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

Scheme changes

At its meeting in July 2010 the joint negotiating committee decided, through the chairman's casting vote, on a recommendation to implement a number of changes to future benefits and contributions, planned to come into force on 1 April 2011. The proposed changes were subject to the statutory requirements of consultation by employers with the representatives of affected members and with affected members individually. This consultation took place between October and December 2010.

The responses to the consultation were considered by the trustee board in January 2011, after having earlier been reviewed in detail by a delegated group of board directors in the post-Christmas period. In the light of the responses to the consultation, the board suggested a number of potential modifications to the proposed changes which the joint negotiating committee was invited to consider.

The joint negotiating committee was unable to complete its deliberations on the suggested modifications or to finalise the form of the scheme changes due to difficulties that were encountered with the quorum provisions of the joint negotiating committee. The detail of this is reported elsewhere in the report and accounts, under the section on the joint negotiating committee. As a result, it was not possible for the trustee company to implement the proposed changes on 1 April 2011 and the extensive preparations that had been made needed to be put on hold. The final form of the scheme changes was agreed by the JNC in May 2011 and the changes will be brought into force on 1 October 2011.

Employer debt

During the year there has been continued activity in the area of employer debt, mainly as a result of the ongoing technical restructuring and re-organisation which has taken place in participating institutions, and also more significantly where an employer has ceased to employ its last active member or where its business activities came to an end.

This continues to be a major area of activity for the trustee company and the board has put in place a framework within which decisions are taken in relation to employer debt and, specifically, setting out when a form of arrangement may be entered into to modify the debt in particular circumstances. There are a number of such arrangements which might be utilised, depending on the individual circumstances and in particular a satisfactory assessment of covenant and/or the presence of a guarantor for pension commitments. During the year the board noted that further legislative changes may be introduced by government in the area of employer debt, and also changes to the governance arrangements for charities, which may have employer debt consequences. The details have been communicated by the board to affected institutions. It seems certain that employer debt will continue to be an important policy area for the board going forward.

Policy on scheme mergers

During the year the board completed its review of the mergers policy, which sets out the terms under which the trustee company would permit an institution to merge its pension scheme for support staff (often referred to as “SATs”, or self-administered trusts) with USS. This review was initiated following the 2008 actuarial valuation of the scheme, and also took into account the experience of the trustee company gathered whilst undertaking previous scheme mergers.

The new mergers policy has been agreed, and after having deferred the launch of the new policy pending the outcome of the discussions on scheme changes, as the year closed the board confirmed that it was content for the new arrangements to be announced to institutions.

The government’s policy and legislative developments

During the year the board reviewed a number of policy developments emerging from government that affect defined benefit pension schemes. There are two major developments which will have a major impact on pension schemes generally and specifically on USS, namely (i) changes to the pensions tax rules, and (ii) new pensions obligations for employers.

Firstly, during the year the government confirmed its intention to significantly reduce the benefits which members of registered pension schemes may accrue, by lowering the annual allowance from £255,000 to £50,000 from 6 April 2011. This is likely to have a significant impact on members of final salary-related defined benefit pension schemes, and in particular those who are high earners or those who have a significant pay increase (particularly if they also have a substantial period of pensionable service).

During the year the board considered in detail the planned changes by government, and also the potential modifications that might be made to the scheme rules in order to assist in mitigating or eliminating the tax liability that may fall on some members. This matter has also been considered by the joint negotiating committee, and it will meet in the forthcoming year to further consider the options that might be implemented. The board has recognised that regardless of whether or not options are put in place in the scheme rules, it will be necessary to make preparations during the year 2011/12 to be able to deliver a “scheme pays” facility, whereby members who are affected by an annual allowance tax charge may request that it is paid by USS subject to an appropriate deduction to benefits. The new requirements are in addition to new obligations to provide information to affected members within strict timescales, and the trustee company plans to engage with institutions in the coming year so that these new information requirements can be met.

Secondly, the government has put in place legislative provisions relating to new pension obligations on employers, which will come into effect from October 2012. The introduction of these new arrangements is staged and the provisions are unlikely to have effect for USS participating employers until early 2013. The new requirements mean that employers will be obliged to provide a minimum contribution to pensions for their employees, and the government has established its own national scheme (known as the National Employment Savings Trust, or ‘NEST’) for those employers who choose the minimum default option. It is anticipated that USS will be a qualifying scheme and employers will adequately fulfil their statutory obligations by offering USS to staff, although employers will need to consider all categories of staff in their employment. During the year the board received a presentation on the new requirements and identified the policy implications for the scheme, and it plans to consider these further in the coming year. The board is committed to providing support to institutions as they consider the implications of the future obligations.

Separately, the board has continued to monitor developments on the Pension Protection Fund (PPF) levy, and in particular future plans for determination of the risk-based levy.

Pension increases

Section 15 of the USS scheme 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).

On 21 April 2011 USS pensions that satisfied certain qualifying conditions and began before 27 April 2010 were increased by 3.1%, reflecting the increase in the consumer price index over the 12 month period to September 2010, 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, the trustee company decided that pensions arising from the supplementary section should also be increased in the same way as for the main section.

Contribution rates

The rates of ordinary contributions payable by members and institutions between 1 April 2010 and 31 March 2011 were as follows:

USS Main Section	Member	6% of salary
	Institution	16% of salary
USS Supplementary Section	Member	0.35% of salary
	Institution	Nil

Actuarial matters

The actuary carries out a full actuarial valuation of the scheme every three years, with a valuation to take place as at 31 March 2011. The actuarial valuation process takes a number of months to complete, not least because it relies on data for all scheme activity up to 31 March 2011 which takes a period to compile, and also due to the fact that the process of identifying the proposed assumptions for the valuation and consulting on them as required also needs to be completed. It is anticipated that the results of the 2011 valuation will become known towards the end of 2011 (and indeed generally speaking schemes have 12 months to complete the process).

In the period between the triennial valuations, the actuary carries out a regular funding review as at 31 March each year to update the funding position of the scheme, and also provides to the board quarterly estimates of the funding level of the scheme. The annual funding review and quarterly estimates of the funding level are based on the same member data as is used in the triennial actuarial valuations, but take account of changes in interest rates and actual investment performance since the date of the last triennial valuation.

As at 31 March 2011, the actuary estimated that the funding level on the scheme's technical provisions basis was 98%, ie the assets in the fund amounted to 98% of the estimated liabilities. This was a deterioration from the funding level of 103% reported at the last triennial valuation as at 31 March 2008 but an improvement on the funding level of 74% reported as at 31 March 2009 and 91% reported as at 31 March 2010. It is important to emphasise that the funding level reported above for 31 March 2011 is based on the 2008 valuation assumptions and data, and these will be reviewed and updated as part of the 2011 valuation process.

The employer contribution rate required for future service benefits which have accrued during the year was 16% of salaries together with an employee contribution rate of 6.35% of salary.

Further information on the funding of the scheme is included in the summary funding statement, which is issued to all members and pensioners, and in the statement of funding principles. These documents are published at pages 75 and 34.

Accounting matters

The financial statements of the scheme for the year ended 31 March 2011 are set out on pages 53 to 74; and the auditors' statement about contributions and trustee's summary of contributions are set out on pages 70 and 72. 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 79 to 98 and show an increase in operating costs from £52.0 million in 2009/2010 to £65.4 million in 2010/2011. This represents a 22% increase in administration costs and a 27% increase in investment management costs.

The principal drivers of the increase in operating costs have been the increasing scale and complexity of the investment operations, performance fees to external managers, the major projects to enhance systems and processes to support the scheme changes and USSonline and the increase in the Pensions Protection Fund levy.

Cost benchmarking exercises have been undertaken covering both the investment and pensions management parts of the organisation to provide assurance that the operating costs and performance are in line with those of a comparable peer group.

Further details on the operating costs and a review of the activities for the year are given in the Directors' Report & Accounts on page 79.

Investment policy

The arrangements for management and custody of the assets, together with the approximate proportion managed by each manager at 31 March 2011, were as follows:

(a) 84.3% was managed internally by the trustee company's London Investment Office (with JP Morgan as custodian), of which 61.7% were securities assets (or cash), 15.5% were alternative assets and 7.1% were property assets. The internally managed fund has a balanced mandate;

(b) 6.2% was managed by Capital International Limited (with Bank of New York Mellon as custodian) with a global equity mandate;

(c) 7.6% 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).

(d) 1.9% was allocated to two external managers - Blue Bay Asset Management (0.6%) and Legal & General (1.3%) – who have been given mandates to run actively-managed Investment Grade Credit portfolios.

It is the board's belief that the most appropriate investment management structure for the fund is for the bulk of the fund's assets to be managed internally, complemented by external managers in specific specialist areas where in-house management is not cost effective. There will always be significant costs associated with managing a fund the size of USS, but a substantial core of in-house management is always likely to be more cost effective for a fund of our size. The in-house manager can also be focused on and aligned with the long term horizon and investment approaches which USS requires, without the shorter-term commercial pressures which may be experienced by third party providers.

Staff numbers in London were increased from 71 at the start of the year to 86 by 31 March 2011. On the investment side, we added a global emerging markets equities team at the end of 2009/2010 and have continued to strengthen our alternatives team, as we have built-up in the scheme's diversification into alternative assets. Towards the end of 2010/2011, we introduced a dedicated investment strategy team to focus on tactical and strategic asset allocation for the scheme. Alongside the increasing size of the office and complexity of the investment activities undertaken, as well as the heightened regulatory scrutiny applied to the financial services industry, the compliance, risk and legal teams were also strengthened. At the end of March 2010, the London Investment Office was relocated to new and larger premises at 60 Threadneedle Street, which, while adding to costs, was necessary to provide the growing in-house team with suitable premises to meet its immediate and future needs.

The board regularly monitors its investment costs and compares its costs and investment returns with those of other schemes and with potential alternative management structures and remains confident in the current structure.

The year to 31 December 2010 was a good year for investment markets generally, reversing much of the fall in values experienced in 2008. It was also a good year for the fund, returning 11.7% in line with the strategic benchmark. 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 by 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; and
- appropriate risk management systems are in place.

However, any system of internal control can only provide reasonable rather than absolute assurance against material mis-statement 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 in 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, of 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. Within the London Investment Office investment and investment-related risk is initially considered by committees chaired by either the chief investment officer or the chief administrative officer and subsequently by the LIO risk committee, and 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 such that they 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 Edinburgh in December 2010 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 in the trustee company provide for the pensions operations manager, on the application of a complainant, to give a decision and for the trustees or managers, on the further application of the complainant if they are unhappy about that decision, to review the matter in question and either confirm or alter the decision. The review is undertaken by the advisory committee, augmented for this purpose alone by two members of the 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. Four cases were considered at stage two of the procedure. In three of the four cases, the officers' decision at stage 1 of the internal disputes resolution procedure was upheld. In the fourth case the member's complaint was partially upheld and a small compensation payment was offered to the member concerned.

The notifications from institutions continue to indicate that around one sixth of employees eligible to join USS, who were not in variable time employment, elected not to do so when they first had an opportunity to join. This figure has remained fairly constant for many years and the trustee company continues to monitor the situation. Typically employees who opt not to join USS are on short fixed-term contracts and in some cases decide to join USS if their contract is extended.

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, except in circumstances described in the rules. Each institution's eligibility criteria are set out in its deed of accession and an institution that breaches this requirement may be unable to continue to participate in USS. A small number of institutions have been found to have unintentionally deviated from the criteria originally agreed with USS and steps are being taken in these cases to regularise the situation.

Communications

The main challenges for the communications team during the year were keeping members informed of developments in the scheme review, preparing new communications material reflecting the proposed scheme changes and the launch of USSonline which provides institution administrators with a new online administration system.

The communications team travelled up and down the country speaking to members who were anxious to know how the proposed rule changes, agreed by the joint negotiating committee in July 2010, might affect them. These presentations gave members an opportunity to gain a better understanding of the review process and the proposed changes. During the autumn, to support the employers' consultation with affected employees, a micro-website was developed to provide information about the changes and give affected employees the opportunity to comment.

All of the communications material was reviewed to identify the changes needed, based on the rule changes agreed by the joint negotiating committee, in preparation for a major communications campaign after the final rule changes had been agreed.

*e*Pensions

The *e*Pensions strategic initiative continued in 2010 with the development of *USSonline*. *USSonline* is a secure extranet site which enables institutional administrators to transact business with the trustee company online and will eventually replace the current *e*Manual and "webaccess". The aim of *USSonline* is to improve the service provided to members by improving the quality and timeliness of interaction between the institutions and USS. In November 2010 the roll-out of *USSonline* commenced with the larger institutions and to date 9 institutions with 42 administrators are using *USSonline* which covers 25% of USS members. During the early part of 2011 the focus of the trustee company has been on the systems changes necessary for the scheme changes being introduced in 2011. However, the intention is to recommence roll-out of *USSonline* in Q3 2011. During the intervening period feedback has been sought from the vanguard institutions to ascertain their views on the current version of *USSonline*, ensuring that problems and suggestions for improvements are properly considered prior to recommencement of the roll-out, including the scheduling of training sessions.

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

Review of global markets 2010

The major asset classes all delivered positive returns for the full year 2010 with the MSCI World equities index outperforming the Citi World government bond index for the second year in succession. Property was the best performing of the asset classes with the UK IPD Large Life and Pensions Index rising 16%. In aggregate MSCI World equities returned 10.6% in local currency terms over the year, with North America being the best performing region and Europe ex UK the worst. In comparison the Citigroup World government bond index (maturities over 10 years) gained 5.6% in local currency return terms. This full year return from bonds hides two distinct sub-periods: in the first, which lasted to the end of August, the index rose 13% as yields on 10 year government debt fell to new lows in many markets, whilst in the second, concerns about rising inflation and renewed jitters about the scale of deficit funding needed by governments, caused a rapid rise in yields with the index falling nearly 7% from its peak. Investment grade corporate debt produced returns somewhat lower than equities, while high yield bonds excelled with the Barclays US High Yield index rising 15%. The GS Commodity index finished the year with a 9% gain in US dollar terms. Sterling had a volatile year but on a trade weighted basis finished little changed with the gains made against the Euro being offset by losses against other currencies.

Outlook for Global Markets

2011 offers the prospect of continued volatility across financial markets. Market movements since early 2009 have substantially realised the exceptional risk-reward opportunities thrown up by the preceding market turmoil, although we still do not find valuations overstretched. Entering 2011, markets were facing a number of known headwinds – in the developed world many countries had unsustainably high budget deficits and, specifically in Europe, the lack of a convincing solution had postponed rather than solved the Eurozone crisis. In contrast in emerging markets, which have been the key drivers of global GDP growth since the 2008 financial crisis, strong growth and rising inflation have led many countries to embark on policy responses designed to slow their economies. The opening months of 2011 have added a number of new factors to this backdrop: political unrest in the Middle East has pushed oil prices back towards levels last seen in 2008, the Japanese earthquake and tsunami have caused considerable disruption not only to the Japanese domestic economy but also to the global supply chains of many multinational companies, and within Germany the ruling CDU-CSU coalition has lost control of a key state which is likely to make Angela Merkel more cautious in her future dealings with Europe.

Woolgate Shopping Centre, Witney

The inflation-deflation tug-of-war continues to play out. Recent inflation data in both developed and emerging countries has surprised on the upside, with UK inflation recorded above its 2% target every month since December 2009. Bond markets have largely taken this in their stride so far, but if this overshooting persists, concerns will rise that central banks have kept their foot on the reflationary gas for too long. On the other hand, growth and industrial production numbers have been disappointing suggesting that economies may be too weak to support the degree of fiscal tightening necessary to restore government deficits to sustainable levels. Despite the rise in bond yields seen since the summer of 2010, yields in many developed markets remain low by historic standards and a return to “normal” levels would result in a significant fall in capital values. Generally, equities fare well in moderately inflationary environments (which still appears the likeliest prospect), but periods of high or rapidly rising inflation have in the past been associated with poor equity market returns.

USS Investment Management Structure

The scheme’s investments are either managed by the scheme’s in-house investment management team, the London Investment Office (LIO), or outsourced directly to external managers selected on the advice of the LIO. In addition, within the LIO, both the alternative assets and property teams manage their respective portfolios with the assistance of external managers and investment advisors. The scheme believes in employing external managers in areas where the skills either do not exist internally within the LIO or cannot be developed cost effectively internally.

USS Investment Performance


Sir William Friemans Square, Frimley

The total fund rose 11.7% in 2010 almost exactly in line with the return on its strategic asset allocation benchmark and ahead of the UK (RPI) inflation rate of 4.8%. The LIO underperformed its benchmark in 2010 giving back the outperformance generated in 2009. The largest single contributor to the LIO's performance was the large underweight position in property which was the best performing asset class in 2010. Following the sale of a large portion of the property portfolio in 2007 the fund has been gradually rebuilding its exposure with a focus on securing high quality assets which will yield long term positive returns for the scheme. However, the illiquid nature of this asset class together with strong competition for assets which meet our investment criteria means the underweight position may persist for some time. Capital International outperformed its benchmark in 2010, continuing its recovery from late 2008, after underperformance in the preceding years. The HSBC-advised UK index fund slightly outperformed its benchmark during the year. Over the last five years the total fund has returned 3.0% p.a. underperforming its benchmark by 0.6% p.a.

The performance of the individual managers and the total fund for 2010 and the last five years is shown in the table below:

	2010			5 Years (annualised)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative
LIO	10.8%	11.2%	-0.3%	2.5%	3.1%	-0.5%
Capital International	17.9%	15.2%	+2.4%	5.5%	6.0%	-0.5%
UK Index Fund	14.6%	14.5%	+0.1%	5.1%	5.1%	+0.0%
Total Fund	11.7%	11.7%	-0.1%	3.0%	3.7%	-0.6%

The committee regularly reviews both the range of AVC products managed by Prudential and their performance. During the year the committee expressed concern to Prudential about the persistent underperformance of its Responsible Investment fund against its benchmark. Following an extensive search process the committee has determined that the Legal and General Ethical Global Equity Index Fund should replace the Prudential fund in the AVC product range offered to members.

Investment Management Developments

LIO continues to expand the range of activity undertaken internally. This has required additional resources to be added to LIO, including the build-up in recent years of the alternative assets team. In the last 12 months a strategy team has been recruited to strengthen the scheme's tactical and strategic asset allocation, an asset-liability specialist has been added to improve the timeliness of its liability analysis and a head of risk policy has been appointed to better coordinate internal governance and control procedures. Whilst these additions have increased the operating cost of the scheme, the Investment Committee believes they are necessary to achieve the desired diversification of assets in a cost-effective manner and to meet the increasing oversight and regulatory burden faced by all financial institutions. To ensure that the scheme remains cost competitive, an annual benchmarking exercise is undertaken by independent third party providers against an international peer group of similarly sized pension funds. These reports examine both the operating costs of the scheme and the execution costs it is incurring. USS continues to compare favourably to this peer group primarily due to the cost advantages of having a high percentage of its assets managed internally rather than externally. The investment committee takes account of both implementation and management costs when it recommends the scheme's investment strategy to the board or considers any changes to individual mandates.

A dynamic asset allocation policy was introduced to the scheme in 2009 which directly links the fund's strategic allocation to risk-reducing assets and its funding ratio. This process resulted in an incremental allocation to risk-reducing assets in early 2011 when a pre-agreed funding ratio threshold was surpassed. Strategic asset allocation will remain an important area of focus for both the investment committee and the board as the impact of the agreed changes to the scheme and the results of the March 2011 triennial actuarial valuation become available. The board has engaged Redington as an adviser to assist it in developing a more comprehensive asset-liability risk framework for monitoring and guiding the scheme's strategic asset allocation.

There have been a number of changes to the management of the scheme's assets since 31 March 2011. After an extensive search process by the LIO, BlueBay Asset Management, Legal & General Investment Management, and Royal London Asset Management have been appointed to manage a strategic allocation to non-government bonds ('investment grade credit'). These new mandates, together with an increased allocation to global emerging market equities and the continued expansion of the alternatives portfolio, have been financed by reducing allocations to the UK index fund, Capital International and the developed market equity portfolios run by the LIO. The table below sets out the fund's asset distribution, its position relative to the strategic benchmark and the tolerance limits which were in place on 1 April 2011. The table excludes the AVC programme managed by Prudential.

	Fund	Benchmark (SAA)	Active Position	Tolerance Range
Equities	**60.2%**	**57.8%**	**+2.4%**	**-7.5% to +7.5%**
Developed Markets	53.6%	51.0%	+2.5%	
UK	*23.5%*	*23.4%*	*+0.2%*	
N America	*10.3%*	*11.1%*	*-0.8%*	
Europe	*9.7%*	*8.3%*	*+1.4%*	
Japan	*6.8%*	*5.5%*	*+1.3%*	
Pacific ex Japan	*3.3%*	*2.8%*	*+0.5%*	
Emerging Markets	6.6%	6.8%	-0.2%	
Alternatives	**15.9%**	**15.9%**	**0.0%**	**-10% to +10%**
Fixed Income	**14.6%**	**16.4%**	**-1.8%**	**-5% to +5%**
Global Government	11.5%	10.0%	+1.5%	
Liability Hedging Portfolio	1.3%	4.5%	-3.2%	
Credit	1.9%	1.9%	0.0%	
Property	**7.2%**	**10.0%**	**-2.8%**	**-5% to +5%**
Cash	**2.2%**	**0.0%**	**+2.2%**	**Max 10%**
Total Fund	**100%**	**100%**	**0.0%**	

N.B. table may not sum due to rounding

The table below shows the investment managers appointed by the board, their mandate and the percentage of the total scheme they managed as at 1 April 2011:

	Mandate	% Assets
LIO actively managed	Multiple	68%
LIO Alternatives	Multiple external funds and providers	16%
UK Index Fund (advised by HSBC Quantitative Techniques)	FTSE All Share index tracker	9%
Capital International	Global Equities	6%
BlueBay Asset Management	Euro Investment Grade Credit	1%
Legal & General Investment Management	Sterling Investment Grade Credit	1%
Royal London Asset Management	Sterling Investment Grade Credit	1%*

* Mandate awarded on 1 May 2011.

N.B. table may not sum due to rounding

Responsible Investment

The scheme continues to be a leader in responsible investment and in its endeavours to integrate RI issues into the investment process in both listed and unlisted asset classes. The board believes an integrated approach towards responsible investment issues will lead to more effective governance and improved management of environmental and social issues by companies and markets in which USS invests. Working with the portfolio managers, the responsible investment team based in the LIO, looks at RI in the context of the overall performance and strategy of individual companies. Where appropriate, it works in collaboration with other investors which enables the scheme to share the resources associated with engagement, and sends a stronger signal to companies and regulators.

During the last financial year a considerable proportion of the team's corporate engagement activity was dedicated to BP, a process initially focused on BP's oil sands activities and subsequently on learning from the Mocando disaster, and also to the banking sector, with a particular focus on remuneration. The team has continued to support the Pharma Futures project which provides a forum for investors and senior pharmaceutical executives to address issues of concern to the industry in an in-depth, constructive and confidential manner.

The team complements its work at a corporate level with engagement with regulators, policy makers and multinational organisations as the most effective way to address market-wide failures. Climate change remains central to these market-wide initiatives and during the course of the year it met with UK ministers and civil servants on the implementation of climate policy, and the President of the European Union, Mr Barossa, to reinforce the need for appropriate regulation to encourage investment in renewable energy and clean technology. Governance is also an ongoing area of involvement and the team was actively involved in the consultations surrounding the UK Stewardship Code. Internationally it held meetings with regulators in Taiwan, Japan, and USA to discuss governance related issues. It continues to play a leading role in the United Nations backed Principles for Responsible Investment (PRI).

An active RI and engagement approach is also beneficial in unlisted asset classes. The scheme has been leading efforts amongst investors in hedge funds to engage with the offshore regulators of this asset class and, within property, a specialist environmental manager has been appointed to manage these issues within USS's direct property portfolio. The scheme received a Platinum award for Outstanding Industry Contribution for an initiative, set up jointly with the Dutch pension funds APG and PGGM, to establish a global environmental benchmark for the property sector.

Summary Investment Exposures as at 31 March 2011

The following table sets out in more detail the allocation of investments between the managers utilised by the scheme (rounded to the nearest million):

£m	Internally Managed – direct & indirect/ advised		Externally Managed – direct		Total	
	LIO	Index Fund	Capital Int'l	Prudential	31 March 2011	31 March 2010
	Active	Passive	Active	Active		
Equities	**13,941**	**2,452**	**1,968**	**-**	**18,361**	19,695
Developed Markets	12,107	2,452	1,626	-	16,185	17,982
UK	*4,596*	*2,349*	*161*	*-*	*7,106*	*8,354*
Overseas	*7,511*	*103*	*1,465*	*-*	*9,078*	*9,628*
Emerging Markets	1,834	-	342	-	2,176	1,713
Alternatives	**5,221**	**-**	**-**	**-**	**5,221**	3,331
Fixed Income	**4,134**	**-**	**-**	**-**	**4,134**	2,750
Property	**2,256**	**-**	**-**	**-**	**2,256**	1,991
Cash and Equivalent	**1,859**	**2**	**50**	**-**	**1,911**	1,909
Money Purchase AVC Investments	**-**	**-**	**-**	**346**	**346**	324
Other Investment Balances	**71**	**369**	**16**	**-**	**456**	131
Total Fund 2011	**27,482**	**2,823**	**2,034**	**346**	**32,684**	
Total Fund 2010	24,072	2,950	2,784	324		30,131

Note: The allocation of assets in the above table has been reclassified from that in the Statement of Net Assets in the accounts of USS to reflect the underlying economic exposure to each asset class. The table may not sum due to rounding.

The allocation to alternative assets, managed by multiple external managers, is broken down in more detail below:

£m	31 March 2011	31 March 2010
Infrastructure	949	797
Private Equity – Funds	2,635	1,618
Private Equity – Co-investment	296	123
Absolute Return Strategies	1,007	607
Commodities	288	143
Other	46	42
Total	**5,221**	**3,331**

We show below the fund's 20 largest investments in listed equities and in bonds.

	Value £m	%
Royal Dutch Shell	582	1.8
HSBC Holdings	460	1.4
Vodafone Group	436	1.3
BP	361	1.1
BHP Billiton	343	1.1
Rio Tinto	335	1.0
Glaxosmithkline	247	0.8
UK Treasury 4.5% 07/09/2034	240	0.7
US Treasury 4.75% 15/02/2041	227	0.7
BG Group	220	0.7
US Treasury 4.25% 15/11/2040	211	0.6
UK Treasury 4.25% 07/12/2040	210	0.6
Anglo American	198	0.6
British American Tobacco	198	0.6
Deutschland Rep 4.25% 04/07/2039	172	0.5
Barclays	152	0.5
Astrazeneca	150	0.5
Standard Chartered	146	0.5
Xstrata	141	0.4
US Treasury Bond 3.875% 15/08/2040	140	0.4
	5,169	**15.8**

A list of all the fund's equity holdings and a more comprehensive review of corporate governance issues is available on the USS website: www.uss.co.uk

Signed on behalf of the Investment Committee

V Holmes
Chairman

Finance and Policy Committee

The finance and policy committee considers and reports to the 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 the board.
- Oversees the detail of revisions to the company's non-investment risk register and policy and submits annual reports to the board.
- Gives detailed consideration to the strategic and business 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 2011, 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, and 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. Mr Guppy retired from the committee on 31 January 2011 and was replaced by Mr Devlin. We thank Mr Guppy for his significant contribution as a committee member.

During the year, the committee met on four occasions and considered matters such as the actuarial valuation, scheme changes, employer covenant, scheme mergers, employer debt, risk, corporate governance, taxation changes, the government's pensions reform, the ePensions initiative, corporate performance of the trustee company and the strategic and business plans.

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 2011 comprised five members;

- Michael Butcher (chairman) co-opted
- Professor John Bull co-opted
- Joseph Devlin UCU appointed
- Steve Egan HEFC appointed
- David McDonnell UUK appointed

Their biographical details can be found on pages 8 and 9. 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 five 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 internal audit function's terms of reference, its work programme and quarterly reports on its work during the year;
- received regular reports from the head of compliance;
- reviewed the effectiveness of the trustee company's financial controls and its approach to identifying and dealing with risks to its business.

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 compensation packages are determined at board level.

The committee's members are appointed by and from the board and at 31 March 2011 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.

Signed on behalf of the remuneration committee.

H R Jacobs
Chairman

Joint Negotiating Committee

During the year the committee considered a number of substantial matters, the most significant of which was the question of changes to the future benefits provided by the scheme coupled with changes to employee contribution arrangements.

The committee had previously established the Joint Review Group to review scheme changes, but the discussions, which lasted over 18 months, came to an end in the early part of the year without agreement having been reached. This was disappointing to all members of the committee. The employer and member representatives were invited to bring forward final proposals to the July 2010 meeting of the committee. At that meeting the committee was still unable to reach consensus and the independent chairman's vote was used to decide the form of the changes that would be recommended to the USS board.

The board accepted the recommendations put forward by the committee and the process of consultation on the proposed changes with affected members and their representatives ran from October to December 2010 (a longer period than the minimum of 60 days required by legislation). The responses to the consultation were evaluated by the trustee company, a process which resulted in a number of modifications being suggested by the USS board. These were duly considered by the committee at meetings early in 2011. The process of producing the final form of the amending deed was delayed by three meetings of the committee being inquorate due to the absence of the UCU members. However, the May 2011 meeting took place and the amending deed was decided upon, again through the exercise of the independent chairman's vote. The resulting changes will be implemented on 1 October 2011.

During the year the committee also considered and decided upon changes to introduce a limit of age 23 on the payment of pensions to eligible children, subject to appropriate transitional protection. This change was made in response to revised taxation rules from HMRC. Also agreed during the year were changes to the administrative involvement of the funding councils on matters relating to the scheme. Both these changes were agreed and executed in the third deed of amendment, the only deed implemented during the year.

Finally, the committee considered, and continues to consider, the changes that are to be introduced by HMRC to significantly reduce the annual allowance from April 2011, and in particular options that might be introduced by the scheme to mitigate or eliminate the potential annual allowance charge.

The committee met on nine occasions during the year.

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. Dr A Roger fulfilled the role of chair until December 2010 at which time Mr C Vidgeon assumed the role of chair.

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

Fifteen 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.

Four cases were considered at stage two of the internal dispute resolution procedure. One case related to a dispute in respect of an application for retirement on the grounds of incapacity, two cases related to the transfer of benefits and one case was in respect of the application of the definition of pensionable salary under the rules of the scheme benefits following the death of a member. In three cases the officers' decision at stage 1 of the internal dispute resolution procedure was upheld. In one of the transfer of benefits cases the complaint was partially upheld and a small compensation payment for distress and inconvenience was offered to the member concerned.

In addition to making adjudications on these individual cases the committee reviewed a number of other areas of the scheme including: the full commutation application procedure, the USS Internal Dispute Resolution procedure and associated documentation, past full commutation cases, and cases submitted to the Pensions Ombudsman.

Signed on behalf of the Advisory Committee

C Vidgeon
Chairman

Rules Committee

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

The committee's main activity during the year, its eighth, has been to draft the rule amendments which would be required to implement the scheme proposals which were recommended by the Joint Negotiating Committee in July 2010 (and which are subject to possible modification following the consultation with affected employees and their representatives which ended on 22 December 2010). The committee has played a key role in identifying areas where the specification agreed in July 2010 needed to be supplemented in order that its provisions can be implemented from a technical and administrative perspective, and these additional variations have also been taken forward to the JNC for its consideration.

In what was a very busy year, the committee has also been involved in the following activities:

- Reviewing the detail of the changes to the pensions tax rules applying to members and pension schemes, and providing technical input to the JNC's work in identifying possible member options which are to be offered within the scheme.
- Reviewing the role of the funding councils under the scheme rules in relation to administrative matters, work which culminated in rule amendments being made in the third amending deed.
- Continuing to monitor the new statutory employer obligations and auto-enrolment requirements which will come into force on a staged basis from 2012.
- Completing its review of the earlier version of the rules in the light of the re-written rules being implemented in 2009, and finalising a small number of technical glitches in the rules of the scheme which applied between 2003 and 2009 (with the corrections included in a formal supplemental amending deed).

The committee met on seven 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 2011 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. There were no changes in membership during the year.

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

- conducting the appointment process for committee vacancies on the finance & policy and investment committees;
- conducting the reappointment process for three co-opted directors;
- selection criteria for directors and committee appointments;
- reviewing the composition of and skill sets for committees;
- reviewing the induction, training and development programmes for directors;
- agreeing the content of board education sessions;
- 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) working with the internal investment team, 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. Assessment of the USS employer covenant is carried out internally by the chief financial officer and his staff and is based primarily on information from the UK funding councils, Dun & Bradstreet and other publicly available information on the financial health of the sector. The board considers the employer covenant at each of its meetings.

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*. Some short-term volatility of returns can be tolerated, as the scheme does not need to realise investments to meet liabilities, although the trustee company is mindful of the desirability of keeping the funding level on the scheme's technical provisions close to or above 100% thereby minimizing the risk of the introduction of deficit contributions. 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, it is impractical and presently very expensive to match the bulk of the scheme's liabilities. 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 needs 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 what degree of investment risk to take relative to the liabilities, the trustee company receives advice from the internal investment team, 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, given the USS rules regarding contribution rates, 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 at the date of the scheme's triennial valuation, which may result, given the USS rules regarding contribution rates, in a requirement to impose deficit contributions on the employers, or in the event of the 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 internal investment team, 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 may invest in a wide range of assets and strategies, including quoted equity, government and non-government debt (including inflation-linked), currencies, money market instruments, property and alternative assets and strategies including private equity and debt, infrastructure, commodities and absolute return strategies. Investment may be undertaken directly, indirectly (e.g. via funds), in physical assets or derivatives.

4.3 The trustee company also monitors, analyses and responds to other risks such as regulatory risk, administrative risk, custody risk, concentration, currency, 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 major exposure to 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 reviewed periodically to ensure that it is appropriate for the circumstances and objectives of the scheme. 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 as set at 31 December 2009.

The target allocation for alternatives is presently set at 20% with a corresponding reduction in the allocation to quoted equities. The alternatives allocation will build up progressively, driven particularly by the drawing of existing and new investment commitments to private equity and infrastructure and by new investment to hedge funds or absolute return strategies.

	31 December 2009
Equities	68
Alternatives	9.5
Fixed interest (including index-linked)	12.5
Property	10

5.3 It is the trustee company's intention to diversify the asset allocation exposures geographically, by asset class and across active management strategies. It also aims gradually to increase the allocation to risk reducing assets (such as government bonds and index-linked gilts) and other risk-hedging instruments as the scheme's funding level improves, whilst being mindful of the desire of the employers to minimise the likelihood of an increase in the scheme contribution rate. The allocation to risk reducing assets would primarily be drawn from the allocation to quoted equities. The market-related triggers for incremental allocations will be driven by improvements in the scheme funding level.

5.4 The above distributions have been agreed on the recommendation of the investment committee based on its belief that, over the long-term, a reasonable estimate of the real annual rates of return of each asset class would typically be:

Equities	5%
Alternative assets	5%
Property	3.75%
Fixed interest	2%
Index-linked	1.75%

5.5 The trustee company's policy is to hedge back to sterling an appropriate proportion of the developed market currency exposure.

5.6 The majority of the fund's investments are currently managed in-house. This is generally supported by the in-house managers' longer-term investment orientation and incentives, lower costs and greater transparency, as well as the absence of marketing or commercial demands. External managers are appointed (and may be dismissed) as appropriate, given our assessment of their skill and expected net returns versus relevant benchmarks. They can enable the scheme to diversify market and fund manager risks and to achieve access to a wider range of opportunities and styles than we could deliver, economically and competitively, in-house. Index tracking is used as appropriate to reduce investment risk relative to benchmark and investment management costs. The IPID, as periodically updated, gives details of each investment manager's mandate as set out in their respective investment management agreements.

5.7 The alternative asset programme is managed in-house, substantially through sub-contracting some management functions to specialists or through direct investment.

5.8 The overall property portfolio is managed in-house with advice received from external specialists. External managers or funds are used as appropriate.

5.9 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.

5.10 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.

5.11 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 seek 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 as permitted by relevant legal and regulatory codes.

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 and the internal investment team, 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 nine 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 works with the internal investment team and 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 oversees 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 2008 and will be carried out regularly to seek to ensure that the fund's asset distribution remains appropriate given the liability profile of the fund and the trustee company's risk tolerance.

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

University Institutions

No.	Name	Members	Pensioner Members	Spouses, Dependants and Dependent Children
0100	Aberdeen	2,011	770	168
4100	Aston	820	434	138
4300	Bath	1,492	506	90
6600	Belfast	2,196	869	184
1000	Birmingham	3,155	1,258	286
4200	Bradford	872	619	122
1100	Bristol	2,785	1,059	196
4400	Brunel	1,104	376	83
7035	Buckingham	96	64	8
1200	Cambridge (University)	5,708	1,374	368
1202	Christ’s	31	10	4
1204	Churchill	133	18	0
1206	Clare	24	5	2
1208	Clare Hall	10	1	1
1210	Corpus Christi	83	10	3
1212	Darwin	7	2	2
1214	Downing	93	12	4
1216	Emmanuel	69	6	3
1218	Fitzwilliam	84	19	7
1220	Girton	79	20	3
1222	Gonville & Caius	119	12	4
7143	Homerton College	35	5	0
1224	Hughes Hall	9	1	1
1226	Jesus	68	8	3
1228	King’s	156	25	2
1230	Lucy Cavendish	39	8	3
1232	Magdalene	89	8	3
1234	New Hall	107	17	1
1236	Newnham	78	20	4
1238	Pembroke	106	16	0
1240	Peterhouse	50	5	1
1242	Queen’s	71	4	1
1245	Robinson	20	10	0
1246	St Catharine’s	61	8	2
1255	St Edmund’s	21	2	1

University Institutions (continued)

No.	Name	Members	Pensioner Members	Spouses, Dependants and Dependent Children
1250	St John's	79	11	5
1252	Selwyn	51	2	2
1254	Sidney Sussex	94	3	2
1258	Trinity	100	16	5
1260	Trinity Hall	51	9	4
1268	Wolfson	40	5	1
4700	City	1,344	543	128
7016	Cranfield	944	643	142
0700	Dundee	1,753	530	131
1300	Durham (University)	1,993	642	115
1301	St Chads	17	0	0
1302	St John's	6	1	0
1303	Ushaw College	3	2	0
1500	East Anglia	1,873	615	76
0200	Edinburgh	4,588	1,345	313
1700	Essex	1,478	337	73
1600	Exeter	1,816	695	112
0300	Glasgow	2,885	1,167	245
0800	Heriot-Watt	919	384	80
1800	Hull	1,199	566	148
3100	Keele	1,175	385	83
1900	Kent	1,278	535	82
2100	Lancaster	1,199	502	100
2000	Leeds	3,687	1,560	312
2200	Leicester	1,886	553	103
2300	Liverpool	2,309	1,041	225
2497	London (University)	541	656	192
2408	Birkbeck	828	237	44
2401	Goldsmiths' College	702	229	19
2480	Heythrop	35	8	0
2409	Imperial College of Science, Technology & Medicine	3,197	1,303	340
2440	Institute of Cancer Research	759	55	5
2403	Institute of Education	668	309	53
2410	King's College London	3,225	1,189	264
2412	London School of Economics & Political Science	1,211	341	79

University Institutions (continued)

No.	Name	Members	Pensioner Members	Spouses, Dependants and Dependent Children
2434	London School of Hygiene & Tropical Medicine	781	140	37
2413	Queen Mary & Westfield College	1,969	676	154
2447	Royal Holloway and Bedford New College	918	330	67
2436	Royal Veterinary College	348	77	26
2428	St George's Hospital Medical School	400	135	28
2415	School of Oriental & African Studies	566	238	56
2416	School of Pharmacy	128	45	11
2417	University College	5,785	1,495	290
2484	London Business School	329	78	15
4600	Loughborough	1,646	669	159
2500	Manchester	5,119	2,200	425
1400	Newcastle-Upon-Tyne	2,514	964	231
2600	Nottingham	3,667	932	212
8900	Open	6,484	2,751	244
2700	Oxford (University)	6,040	1,666	415
2701	All Souls	32	16	4
2702	Balliol	62	10	5
2703	Brasenose	68	5	3
2704	Christ Church	104	14	8
2705	Corpus Christi	36	6	2
2706	Exeter	55	12	4
7028	Green Templeton College	13	22	4
2735	Harris Manchester	13	3	0
2707	Hertford	47	11	4
2708	Jesus	57	13	1
2709	Keble	66	9	0
2710	Lady Margaret Hall	53	15	4
2734	Linacre	11	5	0
2711	Lincoln	39	7	2
2712	Magdalen	57	13	6
2732	Mansfield	30	7	2
2713	Merton	58	6	6
2714	New College	86	21	4
2715	Nuffield	62	10	2
2716	Oriel	63	18	0
2717	Pembroke	64	7	2

University Institutions (continued)

No.	Name	Members	Pensioner Members	Spouses, Dependants and Dependent Children
2718	Queen's	45	15	2
2736	Regent's Park	7	0	0
2727	Somerville	59	15	1
2719	St Anne's	66	10	2
2720	St Antony's	49	14	2
2737	St Benet's Hall	2	0	0
2721	St Catherine's	64	13	2
2722	St Edmund Hall	52	6	1
2723	St Hilda's	72	22	1
2724	St Hugh's	66	10	0
2725	St John's	103	16	1
2726	St Peter's	52	9	3
2728	Trinity	43	5	2
2729	University	62	15	5
2730	Wadham	79	6	6
2733	Wolfson	13	5	5
2731	Worcester	49	13	2
2800	Reading	1,906	821	158
0400	St Andrews	1,106	359	72
4800	Salford	1,187	717	132
2900	Sheffield	3,076	1,091	203
3000	Southampton	3,037	1,032	174
0500	Stirling	846	375	72
0600	Strathclyde	2,104	857	199
4000	Surrey	1,534	713	121
3200	Sussex	1,131	561	131
6800	Ulster	1,896	650	119
3900	Wales (University)	81	33	3
3300	Aberystwyth	917	375	87
3400	Bangor	881	479	108
3500	Cardiff	3,099	1,019	248
3600	Swansea	1,471	538	128
3800	University of Wales Trinity Saint David	138	72	15
5000	Warwick	2,516	718	113
5200	York	1,840	478	78
UNIVERSITY INSTITUTIONS Total		**133,233**	**47,688**	**9,810**

New University Institutions

No.	Name	Members	Pensioner Members	Spouses, Dependants and Dependent Children
8160	Abertay	3	1	0
8280	Bedfordshire	39	1	0
8350	Birmingham City	34	2	0
8420	Bolton	15	0	0
8100	Bournemouth	12	6	0
8080	Brighton	68	5	0
8520	Buckinghamshire New University	3	0	0
8430	Canterbury Christ Church	30	0	0
8150	Central Lancashire	40	4	2
8470	Chichester	5	1	0
8110	Coventry	73	6	1
8060	De Montfort	23	6	0
8500	Edge Hill	12	0	0
8010	Glamorgan	17	4	0
8400	Glasgow Caledonian	58	1	0
8440	Gloucestershire	13	3	0
7205	Glyndwr University	22	2	0
8210	Greenwich	5	0	0
8040	Hertfordshire	2	1	0
8050	Huddersfield	54	3	0
8170	Kingston	43	1	0
8480	Leeds Metropolitan	18	1	0
8190	Lincoln	50	6	0
8300	Liverpool Hope	9	4	0
8270	Liverpool John Moores	26	0	0
8240	London Metropolitan	53	6	0
8140	Manchester Metropolitan	46	6	0
8460	Northampton	11	1	0
8510	Northumbria	62	0	0
8090	Nottingham Trent	59	10	0
8120	Oxford Brookes	80	2	0
8070	Plymouth	43	14	0
8290	Queen Margaret University	18	1	0
8370	Roehampton	62	0	0
8220	Sheffield Hallam	176	19	0
8020	South Bank	40	10	0

New University Institutions (continued)

No.	Name	Members	Pensioner Members	Spouses, Dependants and Dependent Children
8530	Southampton Solent University	4	0	0
8320	Sunderland	16	2	0
8340	Swansea Metropolitan University	15	3	0
8330	Teeside	1	1	0
8030	The University of West London	8	7	0
8490	Trinity College	12	0	0
8380	University College Falmouth	5	0	0
8180	University of Wales Institute, Cardiff	71	0	0
8410	West of England	69	1	0
8250	West of Scotland	3	2	0
8130	Westminster	88	1	0
8450	Winchester	27	2	0
8390	Wolverhampton	23	0	0
8360	Worcester	21	0	0
NEW UNIVERSITY INSTITUTIONS Total		**1,687**	**146**	**3**
All University Institutions Total		**134,920**	**47,834**	**9,813**

Non-University Institutions

No.	Name	Members	Pensioner Members	Spouses, Dependants and Dependent Children
7224	AGCAS	17	1	0
7221	Al-Maktoum Institute	8	1	0
7010	Animal Health Trust	66	17	2
7309	APUC Ltd	12	0	0
7080	Arable Group	1	8	4
7040	Arthritis Research Campaign	0	6	0
7275	Arts and Humanities Research Council	2	0	0
7190	Ashridge (Bonar Law Memorial) Trust	289	14	1
7178	Assessment and Qualifications Alliance	21	46	8
7011	Association of Commonwealth Universities	34	31	11
7255	Aston Academy of Life Sciences	0	0	0
7067	Beatson Institute for Cancer Research	107	11	4
7273	Biochemical Society	46	0	0
7037	Brewing Research International	38	22	5
7206	Bristol Zoo Gardens	0	0	0
7012	British Glass Manufacturing Confederation	0	7	0
7033	British Institute for the Study of Iraq	1	0	0
7030	British Institute in Eastern Africa	4	2	0
7091	British Institute of Archaeology at Ankara	4	3	0
7112	British Institute of International & Comparative Law	1	2	0
7097	British Psychological Society	1	3	1
7087	British School at Athens	3	2	1
7092	British School at Rome	1	0	0
7050	British Universities & Colleges Sport	3	2	0
7122	Burden Neurological Institute	1	3	0
7116	Cambridge Crystallographic Data Centre	37	14	0
7296	Cambridge Enterprise Limited	33	1	0
7319	Cambridge Venue Company Limited	4	0	0
7060	Cancer Research UK	7	12	2
7153	CASE (Europe)	4	1	0
7291	Centre for Advanced Software Technology Ltd	4	0	0
7294	Centre for Mental Health	9	3	0
7197	Centre for Migration Studies	1	0	0
7310	Chawton House Library	1	0	0

Non-University Institutions (continued)

No.	Name	Members	Pensioner Members	Spouses, Dependants and Dependent Children
7015	College of Estate Management	32	37	6
7191	Connect - The Communications Disability Network	8	2	0
7110	Council for British Research in the Levant	2	0	0
7265	Council for Christian Colleges and Universities UK	6	0	0
7216	Courtauld Institute of Art	70	19	3
7188	Cranfield Aerospace Ltd	12	12	0
7219	Cranfield Innovative Manufacturing Ltd	6	1	1
7288	Salford University Purchasing Services Ltd	3	0	0
7098	Culham Institute	2	0	0
7145	Dartington Hall Trust	1	2	0
7217	Duke Corporation Education Ltd	6	0	0
7253	East Malling Research	79	21	0
7241	Economic Research Institute of Northern Ireland Ltd	7	0	0
7164	Edinburgh Business School	30	8	0
7032	Edinburgh University Students’ Association	57	51	2
7282	Educational Competences Consortium Ltd	4	0	0
7182	EDUSERV	78	4	0
7266	EDUSERV Technologies Ltd	3	0	1
7229	Energy Consortium (Education)	4	2	0
7139	Engineering Development Trust	30	16	1
7290	Equality Challenge Unit	15	1	0
7257	ESCP-EAP European School of Management	26	3	2
7212	EUSPEN Ltd	2	1	0
7089	Ewing Foundation	4	2	0
7239	Facial Surgery Research Foundation	4	0	0
7214	Forum for European Philosophy	0	0	0
7175	Freshwater Biological Association	13	3	0
7041	Geographical Association	9	5	0
7246	Graduate Prospects	4	0	0
7152	Gray Laboratory	7	4	0
7303	GU Heritage Retail Limited	1	0	0
7180	GuildHE Ltd	4	0	0
7304	Health and Europe Centre	0	2	0

Non-University Institutions (continued)

No.	Name	Members	Pensioner Members	Spouses, Dependants and Dependent Children
7176	HEFCE	5	0	0
7230	Heriot-Watt University Students Association	0	3	0
7258	Higher Education Academy	76	12	0
7157	Higher Education Careers Service Unit	3	6	0
7186	Higher Education South East	1	1	0
7135	Higher Education Statistics Agency Ltd	30	3	2
7053	History of Parliament Trust	24	9	0
7170	Hull University Union	15	2	0
7321	Ifm Education and Consultancy Services Ltd	1	0	0
7236	Institute for Criminal Policy Research	9	0	0
7029	Institute for Employment Studies	16	16	2
7306	Institute for Research and Innovation in Social Services	16	1	0
7017	Institute of Development Studies	165	47	8
7056	Institute of Food Science & Technology	4	1	0
7132	International Society (Manchester)	2	1	0
7149	International Students House	4	3	0
7298	JBS Executive Education Ltd	29	0	0
7289	JISC Content Procurement Company	18	0	0
7147	JNT Association	109	12	2
7054	Joint Library of Hellenic & Roman Societies	0	0	0
7189	Kelvin Nanotechnology Ltd	4	0	0
7226	Kidscan Ltd	2	1	0
7317	Langford Veterinary Services Ltd	4	0	0
7240	Leadership Foundation for Higher Education	13	1	0
7177	Learning from Experience Trust	0	1	0
7208	LeNSE Ltd	2	0	0
7271	LHASA Limited	57	1	0
2482	Lister Institute of Preventive Medicine	0	3	4
7316	Liverpool School of Tropical Medicine	151	3	0
7277	Liverpool University Press 2004 Ltd	7	0	0
7315	London Higher	14	0	0
7168	London Mathematical Society	15	0	0
7179	London School of Jewish Studies	1	2	0
7235	London Universities Purchasing Consortium	5	1	0

Non-University Institutions (continued)

No.	Name	Members	Pensioner Members	Spouses, Dependants and Dependent Children
7117	Ludwig Inst for Cancer Research - Middlesex Branch	2	9	0
7311	Macrobert Arts Centre Ltd	0	1	0
7215	Manchester Medical Society	2	0	0
7090	Marie Curie Cancer Care	13	6	4
7125	Marine Biological Association of the United Kingdom	43	2	0
7094	MIRA Ltd	378	72	12
7096	Modern Humanities Research Association	5	0	0
7260	Mulberry Bear Day Nursery & Pre-School	16	2	0
7268	Myscience.Co Ltd	61	1	2
7018	National Institute of Economic & Social Research	24	13	4
7272	Ner Yisrael Educational Trust	2	0	0
7313	North West Wales Management Development Centre Ltd	4	1	0
7073	Northern College	35	19	3
7270	Northern Consortium	6	0	0
7269	Northern Consortium UK Ltd	9	0	0
7146	Northern Ireland Council for Postgraduate Medical & Dental Education	2	3	1
7292	Nuffield Trust for Research and Policy Studies in Health Services	2	0	0
7301	NUINTO Ltd	12	1	0
7048	Numerical Algorithms Group Ltd	67	17	3
7183	NYU in London	18	1	0
7242	Office of the Independent Adjudicator for Higher Education	23	2	0
7284	Open College Network Eastern Region	20	1	0
7261	Open University Student's Association	13	2	0
7058	Open University Worldwide	38	17	0
7023	Overseas Development Institute	75	18	0
7174	Oxford Cambridge & RSA Examinations	220	47	3
7031	Oxford Centre for Hebrew & Jewish Studies	14	3	2
7118	Oxford Centre for Islamic Studies	9	1	0
7297	Oxford Colleges Admission Office	7	1	0
7287	Oxford Said Business School	22	4	0

Non-University Institutions (continued)

No.	Name	Members	Pensioner Members	Spouses, Dependants and Dependent Children
7305	Oxford University Asset Management Ltd	3	0	0
7104	Pain Relief Foundation	0	0	0
7243	Picker Institute Europe	0	0	0
7162	Quality Assurance Agency	62	20	3
7264	Queen Victoria Blond Mc Indoe Research Foundation	2	1	0
7234	Rambert School of Ballet and Contemporary Dance	3	1	0
7203	Regional Studies Association	5	1	0
7156	Regulatory Policy Institute	1	0	0
7238	Rhodes Trust	8	0	0
7123	Richmond University	43	22	2
7185	Royal Academy of Dance	1	0	0
7160	Royal Academy of Music	5	1	0
7218	Royal Agricultural College	2	1	0
7181	Royal College of Music	88	4	0
7081	Royal College of Paediatrics and Child Health	1	4	0
7020	Royal College of Surgeons of England	156	43	11
7021	Royal Geographical Society	3	3	0
7077	Royal Institution	7	4	2
7158	Royal Northern College of Music	5	1	0
7064	Royal Society	6	0	0
7070	Royal Society of Edinburgh	2	2	0
7022	Ruskin College	44	34	7
7300	Sarah Lawrence at Oxford	3	0	0
7105	School Mathematics Project	2	7	0
7130	Scottish Association for Marine Science	112	4	2
7262	Shared Care Network	9	0	0
7196	Sheffield University Enterprises Ltd	2	1	0
7199	Smith Institute	13	0	0
7274	Society for Experimental Biology	2	0	0
7169	Society of Antiquaries of London	10	4	0
7131	Southern Universities Management Services	12	5	0
7220	Stockholm Environment Institute	8	0	0

Non-University Institutions (continued)

No.	Name	Members	Pensioner Members	Spouses, Dependants and Dependent Children
7042	Strangeways Research Laboratory	7	16	2
7299	The English Association	2	0	0
7134	The Prince's Foundation	2	3	0
7312	The Russell Group of Universities	8	0	0
7138	Thrombosis Research Institute	8	5	0
7173	Trinity Laban	99	10	2
7263	UC (Suffolk) Ltd	272	26	0
7293	UCL Business Plc	13	2	0
7250	UK Biobank Ltd	16	0	0
7210	UK Council for International Student Affairs	17	3	1
7285	UK Socrates-Erasmus Council	0	0	0
7166	UMIST Ventures Ltd	1	0	0
7106	Universities and Colleges Admissions Service	18	17	6
7150	Universities and Colleges Employers Association	9	3	0
9999	Universities Superannuation Scheme Ltd	230	47	1
7121	Universities UK	48	17	2
7295	University and College Union	183	27	0
7184	University Council for the Education of Teachers	3	1	0
7142	University of Essex Commercial Services Ltd	20	3	0
7302	University of Essex Students' Union	28	2	0
7049	University of Leicester Students' Union	1	4	1
7256	University of Sheffield Union of Students	10	0	0
7171	University of the Arts London	35	4	0
7204	University of the Highlands and Islands	16	2	0
7202	University of Wales, Newport	7	0	0
7227	Warren House Group at Dartington	14	1	0
7065	Wildfowl & Wetlands Trust	1	10	2

Non-University Institutions (continued)

No.	Name	Members	Pensioner Members	Spouses, Dependants and Dependent Children
7027	York Archaeological Trust	3	2	0
7223	York Health Economics Consortium Ltd	5	2	0
7195	Yorkshire Universities	4	1	0
7280	Young Foundation	38	8	0
7076	Zoological Society of London	40	13	1
	Withdrawn institutions	0	243	26
NON-UNIVERSITY INSTITUTIONS Total		**5,011**	**1,417**	**178**
ALL INSTITUTIONS TOTAL		**139,931**	**49,251**	**9,991**

Summary of Movements

Details	University Institutions	Non-University Institutions	Totals
Total members at 1 April 2010	133,054	4,878	137,932
New Members	17,693	891	18,584
Retirements			
- Ill-health	77	4	81
- Other	2,993	68	3,061
Deaths	60	5	65
Leavers and withdrawals			
- Refunds	866	127	993
- Deferred/undecided	11,543	549	12,092
- Retrospective*	288	5	293
Total members at 31 March 2011	**134,920**	**5,011**	**139,931**

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

In addition USS Ltd was notified during the year of 4,194 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 2010	44,966	1,302	46,268
Mergers	0	0	0
New Pensioners	4,179	138	4,317
Deaths	1,311	23	1,334
Total pensioners at 31 March 2011	**47,834**	**1,417**	**49,251**

In addition at 31 March 2011, there were 9,106 pensioners being paid to spouses and dependants and 885 annuities being paid to dependent children.

Deferred pensioners not yet receiving a pension totalled	**88,370**

Ex-spouse participants

At 31 March 2011, 523 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 31 March 2011	**2,256**

Fund Account

for the year ended 31 March 2011

	Note	2011 £m	2010 £m
Contributions and Benefits			
Contributions receivable	3	1,422.1	1,338.5
Premature retirement scheme receipts		30.1	24.3
Transfers in	4	101.5	156.1
		1,553.7	**1,518.9**
Benefits payable	5	1,329.9	1,209.3
Payments on account of leavers	6	45.7	67.7
Administration costs	7	20.6	16.9
		1,396.2	**1,293.9**
Net additions from dealings with members		**157.5**	**225.0**
Returns on Investments			
Investment income	8	749.6	767.8
Change in market value of investments	9	1,719.5	7,546.7
Investment management expenses	10	(44.8)	(35.0)
Net returns on investments		**2,424.3**	**8,279.5**
Net increase/(decrease) in the fund during the year		**2,581.8**	**8,504.5**
Fund at start of year		**30,197.9**	**21,693.4**
Fund at end of year		**32,779.7**	**30,197.9**

The notes on pages 55 to 68 form part of these financial statements.

Statement of Net Assets

as at 31 March 2011

	Note	2011 £m	2010 £m
Investment Assets			
Securities	12	22,525.0	22,429.3
Pooled investment vehicles securities	13	5,148.8	3,139.1
Pooled investment vehicles property	13	756.2	671.1
Derivatives	14	56.3	135.5
Property	16	1,504.5	1,319.4
Cash deposits		2,108.9	2,142.0
Money purchase AVC investments		346.2	324.2
Other investment balances	17	726.9	319.6
		33,172.8	**30,480.2**
Investment liabilities			
Derivatives	18	(203.0)	(149.0)
Other investment balances	19	(288.3)	(200.4)
		(491.3)	**(349.4)**
Net investment assets		**32,681.5**	**30,130.8**
Current assets	**20**	**199.1**	**147.1**
Current liabilities	**21**	**(100.9)**	**(80.0)**
Total net assets, representing the fund balance		**32,779.7**	**30,197.9**

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 summary funding statement and certificate of technical provisions on pages 75 to 78 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 53 to 68 were approved by the trustee, Universities Superannuation Scheme Limited, on 21 July 2011 and were signed on its behalf by:

Martin Harris
Chairman

T H Merchant
Chief Executive

Notes to the Financial Statements

for the year ended 31 March 2011

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)".

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 hedge funds, 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, CB Richard Ellis Ltd;
(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 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. The property swap is valued at fair value, based on the change in the IPD City Offices property index 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

	2011 £m	2010 £m
Main section		
Employers' contributions	938.4	862.6
Employers' salary sacrifice contributions	269.3	210.8
Members' basic contributions	71.1	124.5
Members' additional voluntary contributions	52.6	51.8
	1,331.4	**1,249.7**
Supplementary section		
Supplementary section contributions	19.8	19.5
Money purchase AVCs		
Members' additional voluntary contributions	70.9	69.3
	1,422.1	**1,338.5**

The scheme offers two AVC facilities:

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

	2011 £m	2010 £m
Individual transfers in	101.5	133.9
Group transfers in	-	22.2
	101.5	**156.1**

5. Benefits Payable

	2011 £m	2010 £m
Main section		
Pensions	948.5	890.7
Lump sums on or after retirement	361.2	295.4
Lump sums on death in service	5.9	7.7
	1,315.6	**1,193.8**
Supplementary section		
Pensions	11.1	11.2
Lump sums on or after retirement	1.4	0.5
Lump sums on death in service	1.1	2.2
	13.6	**13.9**
Money purchase AVCs		
Pensions	61.4	48.2
Lump sum death benefits	0.2	0.4
Transferred to USS	(60.9)	(47.0)
	0.7	**1.6**
	1,329.9	**1,209.3**

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

	2011 £m	2010 £m
Individual transfers to other schemes	43.2	64.4
Payments for members joining state scheme	1.0	1.3
Refunds to members leaving service	1.5	2.0
	45.7	**67.7**

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

	2011 £m	2010 £m
Dividends from UK equities	236.4	301.5
Net property income	91.4	72.7
Income from pooled investment vehicles	19.8	30.8
Dividends from overseas equities	276.5	255.1
Income from UK fixed interest securities	37.2	14.0
Income from overseas fixed interest securities	75.1	72.6
Interest on cash deposits	15.2	9.2
Interest from money purchase AVCs	0.2	0.2
Other income	11.7	26.3
	763.5	**782.4**
Irrecoverable withholding tax	(13.9)	(14.6)
	749.6	**767.8**

9. Change in market value of investments

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

	Market value 2010 £m	Purchases during the year at cost £m	Proceeds of sales during the year £m	Changes in value during the year £m	Market value 2011 £m
Securities	22,429.3	14,867.0	(15,966.1)	1,194.8	22,525.0
Pooled investment vehicles-securities	3,139.1	2,425.0	(706.7)	291.4	5,148.8
Pooled investment vehicles-property	671.1	45.4	(37.2)	76.9	756.2
Derivatives	(13.5)	184,829.5	(185,123.4)	160.7	(146.7)
Property	1,319.4	182.4	(42.3)	45.0	1,504.5
Money purchase AVC investments	324.2	71.4	(62.0)	12.6	346.2
Cash deposits	2,142.0	28.8	-	(61.9)	2,108.9
	30,011.6	**202,449.5**	**(201,937.7)**	**1,719.5**	**32,242.9**
Other investment balances	119.2				438.6
Total	**30,130.8**				**32,681.5**

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 gains of £40.5m from forward currency contracts, which are used to hedge the currency risk relating to overseas investments (see note 15). These are offset by falls in the values of the corresponding overseas assets. Turnover in derivatives primarily represents the rolling of these forward currency contracts.

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 £19.1m (2010: £16.1m). In addition to these transaction costs, 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

	2011 £m	2010 £m
Quoted		
UK equities	7,153.6	8,407.1
Overseas equities	11,395.6	11,205.5
UK fixed interest - public sector quoted	1,116.2	769.3
UK fixed interest - other	91.2	120.4
Overseas fixed interest - public sector quoted	2,665.6	1,819.3
Overseas fixed interest - other	102.8	107.7
	22,525.0	**22,429.3**

13. Pooled investment vehicles

	2011 £m	2010 £m
Securities		
Managed Funds and Limited Partnerships	5,137.7	3,053.7
Unit Trusts	11.1	85.4
	5,148.8	**3,139.1**
Property		
Unit Trusts	491.4	425.9
Property companies	18.2	3.5
Limited Partnerships	246.6	241.7
	756.2	**671.1**
	5,905.0	**3,810.2**

14. Derivative contracts (assets)

		2011 £m	2010 £m
Options		-	4.8
Futures contracts	15 (a)	10.3	16.8
Swaps	15 (b)	21.2	20.2
Forward foreign exchange contracts	15 (c)	24.8	93.7
		56.3	**135.5**

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 2011. These valuations will not necessarily reflect the fair values that will be realised on maturity or sale of the various investments.

a) Futures (exchange traded)

Underlying investment	Economic exposure £m	Asset £m	Liability £m
AUS SPI 200	80.0	4.0	-
Eurostoxx 50	454.5	5.0	-
FTSE 100	40.5	0.7	-
LIFFE Gilt	29.8	0.1	-
HK Hang Seng	23.6	0.5	-
JAP Topix	515.0	-	(22.7)
US S&P 500	334.8	-	(6.2)
US Bond	13.8	-	-
US Bond	106.1	-	-
	1,598.1	**10.3**	**(28.9)**

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.

b) Swaps (OTC)

Contract	Notional principal £m	Asset £m	Liability £m
Commodity Swap	134.8	21.2	-
Property Swap	10.0	-	-
	144.8	**21.2**	**-**

The notional principal of the commodity 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 was due to expire in December 2011 but has been closed in May 2011. 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.

The notional principal of the property swap is the amount used to determine the value of swapped property and interest payments. The fund receives the return on the IPD City Office index and pays a fixed rate of interest. The swap will expire in December 2011. The contract is part of the scheme's property portfolio and has enabled the scheme to gain exposure to a property asset class more quickly than by purchasing physical properties.

c) 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	194.0	-	124.7	0.3	-
Purchase Swiss Francs	CHF	220.5	-	149.8	0.9	-
Purchase Euros	EUR	515.7	-	450.8	5.7	-
Purchase Hong Kong dollars	HKD	430.9	-	34.5	0.1	-
Purchase Japanese Yen	JPY	43,975.0	-	330.6	0.7	-
Purchase Norwegian Krona	NOK	158.0	-	17.8	-	-
Purchase US dollars	USD	479.1	-	297.4	1.5	-
Sell Australian dollars	AUD	(1,639.6)	1,022.1	-	-	(34.1)
Sell Canadian dollars	CAD	(468.4)	295.5	-	-	(4.7)
Sell Swiss Francs	CHF	(837.4)	566.8	-	-	(5.3)
Sell Czech Koruna	CZK	(1,235.0)	44.0	-	-	(0.5)
Sell Euros	EUR	(3,709.3)	3,161.4	-	-	(121.7)
Sell Hong Kong dollars	HKD	(2,467.5)	199.6	-	1.6	-
Sell Japanese Yen	JPY	(281,583.9)	2,136.2	-	14.0	-
Sell Mexican dollars	MXN	(1,411.8)	72.7	-	-	(0.8)
Sell Norwegian Krona	NOK	(910.2)	100.0	-	-	(2.6)
Sell Swedish Krona	SEK	(1,579.7)	154.2	-	-	(2.0)
Sell Singapore dollars	SGD	(192.8)	94.2	-	-	(1.4)
Sell US dollars	USD	(12,369.1)	7,720.2	-	-	(1.0)
			15,566.9	**1,405.6**	**24.8**	**(174.1)**

Forward contracts to:	Currency bought millions	Currency sold millions	Asset £m	Liability £m
Sell Euros for US dollars	USD 27.2	EUR 19.1	-	-
			-	**-**
			24.8	**(174.1)**

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 the base currency of its future liabilities. The contracts have settlement dates of up to six months after the year end.

16. Property

	2011 £m	2010 £m
UK completed properties	1,496.7	1,312.2
UK developments in progress	7.8	7.2
	1,504.5	**1,319.4**
Properties analysed by type:		
Freehold	1,215.9	1,089.7
Leasehold	288.6	229.7
	1,504.5	**1,319.4**

The completed properties and developments in progress have been valued on the basis of market value as at 31 March 2011 and 31 March 2010 for accounts purposes by CB Richard Ellis Ltd acting as independent valuers. The valuations have been undertaken in accordance with the RICS Valuation Standards (6th edition).

17. Other investment balances (assets)

	2011 £m	2010 £m
Amount due from stockbrokers	435.8	145.5
Dividends and accrued interest	135.9	116.4
Margin balances	155.2	57.7
	726.9	**319.6**

18. Derivative contracts (liabilities)

		2011 £m	2010 £m
Options		-	-
Futures contracts	**15 (a)**	(28.9)	(2.0)
Swaps	**15 (b)**	-	-
Forward foreign exchange contracts	**15 (c)**	(174.1)	(147.0)
		(203.0)	**(149.0)**

19. Other investment balances (liabilities)

	2011 £m	2010 £m
Amount due to stockbrokers	(269.5)	(188.2)
Margin balances	(18.8)	(12.2)
	(288.3)	**(200.4)**

20. Current assets

	2011 £m	2010 £m
Contributions due from institutions:		
- employers' contributions	84.3	79.1
- members' basic contributions	29.5	28.7
- members' additional voluntary contributions	4.1	3.8
Other debtors	72.9	22.0
Cash at bank and in hand	8.3	13.5
	199.1	**147.1**

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

21. Current liabilities

	2011 £m	2010 £m
Rents & service charges received in advance	(26.3)	(22.4)
Amount due on property purchases	(1.9)	(2.6)
Benefits payable	(40.9)	(31.3)
Taxation creditor	(3.3)	(5.3)
Other creditors	(19.7)	(12.4)
Due to trustee company	(8.8)	(6.0)
	(100.9)	**(80.0)**

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.

	2011 £m	2010 £m
Value of stock on loan at 31 March	**579.3**	**612.4**
Value of collateral held at 31 March	**611.6**	**652.1**

23. Financial commitments

	2011 £m	2010 £m
Property		
Contracts placed but not provided for	**54.6**	**87.7**

Pooled investment vehicles - securities

Outstanding commitments to private equity partnerships	**2,937.3**	**2,806.5**

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

Securities

Forward commitments for unpaid calls on securities and underwriting contracts	**-**	**-**

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 and directors 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 £20.6 million and £44.6 million respectively, with a balance due from the scheme of £8.6 million as at 31 March 2011. Additionally, a number of the directors are members of the governing bodies of participating institutions, in addition to their membership of the board of the trustee company.

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 2011

Martin Harris
Chairman

T H Merchant
Chief Executive

Statement of trustee's responsibilities

in respect of contributions

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

Trustee's summary of contributions payable under the schedule in respect of the scheme year ended 31 March 2011

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 2010 to 31 March 2011 under the schedule of contributions certified by the actuary on 24 June 2009. The scheme auditor reports on contributions payable under the schedule in their auditors' statement about contributions.

Contributions payable under the schedule in respect of the scheme year

	£m
Employer	
Normal contributions	943.9
Salary sacrifice contributions	230.3
Special contributions	0.5
Additional contributions	63.1
Member	
Normal contributions	87.2
Additional contributions	3.7
Contributions payable under the schedule (as reported on by the scheme auditor)	**1,328.7**

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	1,328.7
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)	123.5
Total contributions (including premature retirement scheme receipts) reported in the financial statements	**1,452.2**

Signed on behalf of the trustee on 21 July 2011

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 Universities Superannuation Scheme for the year ended 31 March 2011 set out on pages 53 to 68. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 explained more fully in the Statement of trustee's responsibilities set out on page 69, the scheme trustee is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the scheme during the scheme year ended 31 March 2011 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);
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; 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.

Jeremy Gledhill (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
St James' Square
Manchester
M2 6DS
21 July 2011

Independent Auditors' Statement about Contributions

to the trustee of the Universities Superannuation Scheme.

We have examined the summary of contributions to the Universities Superannuation Scheme in respect of the scheme year ended 31 March 2011 which is set out on page 70.

Respective responsibilities of trustee and auditors

As explained more fully in the Statement of Trustee's Responsibilities set out on page 70, the scheme's trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing 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 is also responsible for keeping records in respect of contributions received in respect of active members of the scheme and for monitoring whether contributions are made to the scheme by the employer in accordance with the schedule of contributions.

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

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give resonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the schedule of contributions.

Statement about contributions payable under the schedule of contributions

In our opinion contributions for the scheme year ended 31 March 2011 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 scheme actuary on 24 June 2009.

Jeremy Gledhill (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
St James' Square
Manchester
M2 6DS
22 July 2010

Five Year Summary - Fund Accounts

for years ended 31 March (restated)

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Contributions and benefits					
Contributions	1,422	1,339	1,190	1,070	960
PRS receipts	30	24	16	20	28
Transfers in	102	156	151	131	144
	1,554	**1,519**	**1,357**	**1,221**	**1,132**
Benefits payable					
Pensions	960	903	822	758	706
Lump sums	370	306	239	209	193
Transfers out	44	66	39	34	42
Refunds	2	2	3	3	3
	1,376	**1,277**	**1,103**	**1,004**	**944**
Investment income (net of investment management costs)	**705**	**733**	**838**	**926**	**789**
Administration costs of the trustee (excluding investment management costs)	15.0	12.5	12.4	10.1	9.5
PPF levies	5.6	4.4	3.9	4.2	3.4
	20.6	**16.9**	**16.3**	**14.3**	**12.9**
Changes in value of investments	**1,720**	**7,547**	**(8,479)**	**(2,389)**	**897**
Investments of the fund (at current values) at 31 March					
Securities	22,525	22,429	16,864	25,080	27,020
Pooled investment vehicles	5,905	3,810	2,548	1,879	1,343
Derivatives	(147)	(13)	(478)	(337)	(31)
Property	1,505	1,320	674	878	1,163
Money purchase AVC investments	346	324	286	256	220
Cash deposits	2,109	2,142	1,491	1,120	291
Other investment balances	439	119	239	154	279
	32,682	**30,131**	**21,624**	**29,030**	**30,285**

Five Year Summary - Fund Accounts (continued)

for years ended 31 March (restated)

	2011	2010	2009	2008	2007
Membership numbers at 31 March					
Contributing members	139,900	137,900	133,400	126,400	121,200
Pensioners	59,200	55,900	52,000	49,900	47,200
Deferred pensioners	88,400	83,200	78,700	76,400	70,700
	287,500	**277,000**	**264,100**	**252,700**	**239,100**

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 investments in accordance with the revised SORP.

Summary Funding Statement

as at 31 March 2011

How does USS work?

USS aims to deliver a defined set of benefits, based on each member's service and salary, as set out in the scheme rules. The financing of these benefits is provided by contributions from the sponsoring institutions and from the scheme members. Contributions are collected from active members (6.35% of salary) and participating employers (16% of salary). These contributions are paid into the USS fund and, together with the investment returns achieved on the fund's assets, are used to finance the payment of benefits to scheme members who have retired, or to their dependants.

How do we measure the financial position of the scheme?

There are inherent uncertainties in the funding of a defined benefits scheme and the finances of the scheme are checked regularly to see how well the fund is shaping up.

The key driver is how well the scheme's investments have performed relative to changes in its liabilities (ie the benefits promised). The scheme actuary carries out a full valuation every three years and compares the value of the scheme's assets with its liabilities using several approaches, as required by regulations.

Work on agreeing the assumptions for the 2011 valuation is not yet finalised but this statement gives you an update on the latest position.

What has happened since the last statement?

World stock markets fell dramatically soon after the 2008 valuation, reaching their lowest point in March 2009. Since then markets recovered up to 31 March 2011. The value of the scheme's assets at 31 March 2011, at £32.4 billion, shows an increase compared with last year (£29.8 billion) and compared with the asset value at the 2008 valuation (£28.8 billion) although the funding level is still lower than at the time of the 2008 valuation.

The volatility in the value of the scheme's assets remains a matter of concern for the board, but USS is able to take a long term view of its investments because of the standing of, and strength of commitment from, the sponsoring employers and the positive cash flow of the scheme.

The board carried out a review of its investment strategy following the completion of the 2008 actuarial valuation and decided to gradually reduce the percentage of the fund held in return seeking assets, such as company shares, and to increase its holding of risk reducing assets such as gilts. However, this change can only take place when market conditions allow, and can only be undertaken over a period of many years, given the size of USS and the implications for the funding of the scheme of such a shift. This is a long-term objective and is explained further in the Statement of Investment Principles.

What is the position on scheme funding?

Assets	£32.4 billion
Amount needed to pay benefits	£33.1 billion
Deficit	£0.7 billion
Funding level	98%

The above table shows the scheme specific (technical provisions) funding level at 31 March 2011 based on the assumptions and data used in 2008 but updated by the scheme actuary for investment returns and changes in market conditions. The actuarial assumptions are likely to be changed when the USS trustee board considers them later this year as part of the valuation process.

The funding level as at 31 March 2011 reflects a change in the way price inflation is calculated for the purpose of determining pension increases. USS pensions are increased in the same way as 'official pensions', which are the pensions payable, for example, to those in the NHS, Teachers and Civil Service schemes. With effect from April 2011, the annual increase, prescribed by the government, reflects the change in the Consumer Prices Index instead of the Retail Prices Index.

There are various ways to approach the calculation of scheme liabilities, and historically the board has used a different standard for measuring the financial position of USS which relates to returns on UK fixed-interest gilts. This standard is still relevant to our long-term funding objective, and is referred to in the table below as the Historic Gilts basis.

The actuary also has to estimate the scheme's funding position as if the scheme had to be wound-up with all the liabilities secured by purchasing each member's benefits from an insurance company. This is called the "buy-out" basis and is, as you might expect, a very expensive way to provide your pensions. The fact that we are required to report the position if the scheme were wound up does not, of course, mean that consideration is being given to winding up the scheme.

The comparable funding levels for each year since the 2008 valuation are set out in the following table:

Funding basis	31 March 2008	31 March 2009	31 March 2010	31 March 2011
Scheme-specific	103%	75%	91%	98%
Historic gilts	71%	52%	63%	69%
Buy-out	79%	47%	57%	54%

What is the trustee board's funding plan?

The board remains confident that its long-term funding plan is appropriate. USS has a diversified portfolio of investments and has continued its move into alternative assets, including private equity, absolute return strategies including hedge funds, and commodities. This will help the fund to better manage volatility and risk.

Also the fund continues to have a positive cash flow (because the fund receives more in contributions and dividends in a year than it pays out in benefits), which leaves it in a much stronger position relative to many other schemes in the UK.

However, the cost of providing pensions continues to rise, partly because members are living longer. Consequently the employers' contribution rate was increased from 14% to 16% effective from 1 October 2009, to provide for the increased cost of providing future benefits.

As reported on page 30 after a long period during which a review of the scheme's benefits was undertaken, followed by a consultation with affected employees and their representatives, a package of scheme rule changes was decided upon with an effective date of 1 October 2011. Further details of the scheme review can be found on the USS website.

More information about the policies of the trustee board can be found in the Statement of Funding Principles and the Statement of Investment Principles, available from the USS website.

What happens if the scheme is wound-up and there is not enough money to pay for all my benefits?

The Government has set up the Pension Protection Fund (PPF) to pay benefits to members in the event that employers become insolvent and are unable to meet their pension commitments. USS is a "last-man standing scheme" for PPF purposes, which means that it would only become eligible for the PPF if all employers in the higher education sector were to become insolvent. Clearly, this is a highly unlikely scenario.

However, if such circumstances were ever to occur, the benefits you would receive from the PPF may be less than the full benefit you have earned in the scheme, depending on your age, when your benefits are earned and the size of your benefits.

Further information and guidance is available on the PPF website at www.pensionprotectionfund.org.uk, or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Where can I get more information?

If you have any other questions, or would like any more information, please contact the person at your employer who deals with USS matters. A list of documents which provide further information is attached. If you would like a copy of any of these documents please refer to the USS website (www.uss.co.uk) or contact our Liverpool office. If you require advice about any aspect of USS you should consult a professional adviser.

Additional documents available on request

Statement of Investment Principles

This explains how we invest the money paid into the scheme.

Statement of Funding Principles

This sets out the policies of the trustee board for securing that the funding objectives are met and was first published as part of the Actuarial Valuation Report as at 31 March 2008.

Investment Policy Implementation Document

This is a working document that contains detailed operational information about the investment policy. A copy can be provided on request.

Schedule of Contributions

This shows how much money is being paid into the scheme by the institutions and the contributing members, and includes a certificate from the actuary showing that it is sufficient.

Report and Accounts for year ended 31 March 2011

This shows the scheme’s income and expenditure in 2010/11.

Actuarial Valuation Report as at 31 March 2008

This contains the details of the trustee board’s review of the scheme’s financial position as at 31 March 2008.

The actuarial report as at 31 March 2010

This contains the details of the actuary’s check of the scheme’s financial position as at 31 March 2010.

Guide for USS members

This is the members’ handbook for the scheme. You should have been given a copy when you joined the scheme, but you can get another copy from your employer.

Certificate of Technical Provisions

Actuarial Valuation as at 31 March 2008 Universities Superannuation Scheme

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	Edwin Topper
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

Mercer

Report of the Directors

for the year ended 31 March 2011

The directors submit their report and the accounts for the year ended 31 March 2011.

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).

Business review

The principal KPI used by the directors in measuring the financial performance of the company is the operating costs. That measure remains satisfactory. The company continues to act as trustee of the scheme and will recover its future costs in accordance with the scheme rules.

The operating costs for the year amounted to £65,410,000 (2010: 51,974,000), this amount being recoverable from USS. Membership of USS has continued to grow steadily and during the past twelve months has increased from 270,000 to 289,000, an increase of 7%.

The year ended 31 March 2011 has been another busy year for the trustee company. In addition to the day to day administration for the scheme and management of the investments, the company has:

- worked on the project to implement scheme changes, which has involved major changes to the IT systems as well as development of new operational processes;
- launched USSonline to 24 institutions, selected to represent some of the largest participating institutions, together with their associated institutions, covering some 27% of active members. This is a significant part of the overall strategy of how we engage with institutions and the rollout to the remaining institutions will commence shortly; and
- continued the building of the investment capability, and associated control functions, of the London investment operation, which has enjoyed a full year in its new offices.

Operating costs for the year are as follows:

	2011 £000	2010 £000	Increase £000	Increase %
Personnel costs	20,152	16,666	3,486	21
Premises costs	3,505	3,004	501	17
Investment costs	23,608	17,696	5,912	33
Other costs	18,145	14,608	3,537	24
	65,410	**51,974**	**13,436**	**26**

Headcount has increased by 14% with the majority of the increase in the London investment office as the programme to enhance the investment capability progressed. Improved investment performance gave rise to increased payment under the company's bonus scheme. After the prior year's pay freeze, the general level of salary increases in the year was 3% in Liverpool and 5.8% in London. Further, temporary staff costs have increased due to the demands of projects undertaken during the year, not least the scheme changes project.

The 17% increase in premises costs reflects a full year in the new London office, which is able to accommodate the increased number of London based staff.

The primary reasons underlying the increase in investment costs are increased research costs, largely resulting from new investment in global emerging markets, external manager performance fees of £1.6million (2010: £Nil), increases in rent review and letting fees on the property portfolio and increased legal costs, due to increasing complexity of the investment operations.

The increase in other costs can largely be attributed to increases in computer and information services costs, PPF levies and professional fees. The significant work undertaken during the year on scheme changes and USSonline has led to increased professional fees, scheme changes alone costing £737,000, as the necessary processes and procedures have been developed to allow for implementation. Computer and information services costs have been impacted by the increased investment activity and the first full year in the new London office, and changes in scheme liabilities and the funding position have led to substantial increases in PPF levies, which are up £1,148,000 compared with the previous year.

The company is currently undertaking a project which, subject to Financial Services Authority (FSA) authorisation and approval, would see the transfer of the company's investment management operations to a wholly owned subsidiary. Subject to receiving the necessary regulatory approvals, the transfer is likely to take place at some point in the current financial year. The project is driven by the need to be able to satisfy the corporate governance requirements of both the FSA and the Pensions Regulator.

The directors do not believe that there are any risks or uncertainties facing the company which are likely to affect the ongoing nature of its activity.

Directors

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

Sir Martin Harris (chairman)
Professor John Bull (deputy chairman)
Professor Glynis Breakwell
Michael G Butcher
Joseph Devlin
Professor David Eastwood
Steve Egan
David Guppy
Virginia Holmes
Howard Jacobs
David McDonnell
Bill Trythall

All directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Employees

The company is committed to the principles of equal opportunities and eliminating discrimination in every aspect of the work of the organisation. Policies in place are such that, in respect of the employment of disabled persons, as defined by the Disability Discrimination Act 1995, the company strives to ensure that no individual or group is treated more or less favourably than others, or will be disadvantaged by any conditions of employment or requirements that cannot be justified as necessary on operational grounds. That principle is enshrined in the company's recruitment and selection policies. The same principle is applied to the continued employment and training of persons who might become disabled while in the company's employment, and to the training, career development and promotion opportunities provided to disabled persons.

Arrangements are in place to provide employees with information on matters of concern to them which are likely to affect their interests. This is normally achieved by consultation with staff representatives and/or the union with the outcomes being communicated to all employees in the most appropriate manner. During the financial year, consultation has taken place with employees and their representatives in respect of changes to the contractual pension age.

Encouraging the involvement of employees in the company's performance is difficult given the nature of the company's operations. However, the business plan and company's objectives are an important part the process of setting objectives for staff, so that a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company can be achieved.

Donations

During the year there were no political donations made and no charitable donations in excess of £2,000.

Fixed assets

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

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare accounts for each financial year. Under that law they have elected to prepare the accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these accounts, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect 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 2011

Statement of Operating Costs

for the year ended 31 March 2011

	Note	2011 £000	2010 £000
Personnel costs			
Employees' emoluments	4	18,418	15,130
Directors' emoluments and expenses	5	541	551
Recruitment, training and welfare		1,193	985
		20,152	**16,666**
Premises costs			
Rent, rates, service charges and utilities		2,753	2,581
Depreciation and maintenance	6	752	423
		3,505	**3,004**
Investment costs			
Securities research costs	7	10,003	8,416
Securities management	8	6,515	4,206
Property management	9	3,639	2,653
Custodial services		1,293	1,075
Legal costs - property management		817	606
- other		928	423
Property valuation		231	150
Investment performance measurement		182	167
		23,608	**17,696**

	Note	2011 £000	2010 £000
Other costs			
Computer and information services costs	10	5,649	4,573
Pension Protection Fund Levy	11	5,571	4,423
Professional fees	12	3,975	2,991
Travel and car costs		1,120	928
Office equipment		563	429
Institution liaison and member communication		408	332
Telephones and postage		252	274
Printing and stationery		231	196
Insurances		129	127
Sundry expenditure		111	214
FSA fees		98	69
Auditors' remuneration	13	65	62
Profit on disposal of fixed assets		(27)	(10)
		18,145	**14,608**
Total operating costs	**15**	**65,410**	**51,974**

All operating costs of the company are recoverable from USS in accordance with the rules of the scheme.

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 86 to 97 form part of these financial statements.

Balance Sheet as at 31 March 2011

Company registration number: 1167127

	Note	2011 £000	2010 £000
Assets			
Fixed assets			
Tangible fixed assets	16	4,154	4,955
Current assets			
Debtors	17	10,562	7,598
Cash at bank and in hand		6	9
		10,568	**7,607**
Total assets		**14,722**	**12,562**
Liabilities			
Creditors - amounts falling due within one year	18	14,124	12,142
Creditors - bonuses due after more than one year	19	598	420
Total liabilities		**14,722**	**12,562**

The notes on pages 86 to 97 form part of these financial statement.

The financial statements on pages 82 to 97 were approved by the board of directors on 21 July 2011 and were signed on its behalf by:

Martin Harris
Chairman

John Bull
Deputy Chairman

Cash Flow Statement

for the year ended 31 March 2011

	Note	2011 £000	2010 £000
Operating activities			
Cash received from USS		62,569	52,396
Operating costs paid	20	(61,719)	(48,245)
Net cash inflow from operating activities		**850**	**4,151**
Capital Expenditure			
Purchase of tangible fixed assets		(946)	(4,166)
Sale of tangible fixed assets		93	19
		(853)	**(4,147)**
(Decrease)/Increase in cash		**(3)**	**4**

The notes on pages 86 to 97 form part of these financial statement.

Notes to the Accounts

for the year ended 31 March 2011

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 the directors believe that such a statement is inappropriate to the operations of the company and that the costs incurred and the method by which they are recovered are better 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**

Basis of preparation

The accounts have been prepared in accordance with United Kingdom accounting standards and applicable law (UK Generally Accepted Accounting Practice).

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	$33^1/_3$
Motor cars	25
Computer software	$33^1/_3$

Operating leases

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

Pensions

The company participates in the Universities Superannuation Scheme (USS), a multi-employer 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 company as trustee. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The company is therefore exposed to actuarial risks associated with other institutions' employees and 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

	2011	2010
The average weekly number of persons employed by the company during the year (excluding directors) was	259	228

	£000	£000
Staff costs for the above persons were:		
Wages and salaries	14,325	12,027
Pension costs	2,689	1,909
Social security costs	1,385	1,172
Restructuring costs	19	22
	18,418	**15,130**

	2011 £000	2010 £000
Emoluments of the chief executive		
Salary and benefits	311	250
Accrued pension under defined benefits scheme	24	20

The emoluments of the chief executive are shown on the same basis as for higher paid staff. The salary and benefits include a recognition award of £50,000 (2010: £nil).

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

	2011	2010
£70,001 - £80,000	3	3
£80,001 - £90,000	3	2
£90,001 - £100,000	3	5
£100,001 - £110,000	7	4
£110,001 - £120,000	4	7
£120,001 - £130,000	5	1
£130,001 - £140,000	6	1
£140,001 - £150,000	5	7
£150,001 - £160,000	2	4
£160,001 - £170,000	3	1
£170,001 - £180,000	2	2
£180,001 - £190,000	2	-
£190,001 - £200,000	1	2
£200,001 - £210,000	2	2
£210,001 - £220,000	2	2
£220,001 - £230,000	3	1
£240,001 - £250,000	-	1
£250,001 - £260,000	2	1
£260,001 - £270,000	1	-
£310,001 - £320,000	2	-
£370,001 - £380,000	1	-
£480,001 - £490,000	-	1

The salary figures above include bonus payments. The bonus scheme is reviewed by the remuneration committee.

5. Directors' emoluments and expenses

	2011 £000	2010 £000
Fees	455	454
Employer's costs - national insurance contributions	48	45
- VAT	3	5
Expenses	35	47
	541	**551**

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 2011 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, or to a third party in respect of their services were as follows:

	2011 £000	**2010 £000**
Sir Martin Harris (chairman)	67	67
Virginia Holmes	75	75
Howard Jacobs	60	62
Professor John Bull (deputy chairman)	57	57
Michael G Butcher	36	39
Bill Trythall	30	15
David McDonnell	24	24
David Guppy	24	22
Joseph Devlin	24	22
Professor David Eastwood	22	19
Steve Egan	21	10
Professor Glynis Breakwell	19	9
Lady Merrison	-	21
Baroness Warwick of Undercliffe	-	10
Sir Muir Russell	-	6
	459	**458**

The directors fees and expenses paid include £24,000 to third parties in respect of their services.

6. Depreciation and maintenance

There has been an increase in costs over the previous year due mainly to the relocation of the London investment office at the end of March 2010. The fit-out cost relating to the new office is incurring depreciation charges whereas the previous premises alterations were by and large fully depreciated.

7. Securities research costs

Securities research costs represent the costs paid by the internally managed fund to its brokers for research.

8. Securities management

	2011 £000	2010 £000
External manager base fees	4,737	3,979
External manager performance fees	1,289	-
Professional fees	489	227
	6,515	**4,206**

9. Property management

	2011 £000	2010 £000
External manager fees	2,039	1,893
External manager performance fees	312	-
Rent review and letting fees	1,230	648
Other	58	112
	3,639	**2,653**

10. Computer and information service costs

	2011 £000	2010 £000
Investment information services	3,021	2,456
Computer running costs	1,271	947
Software depreciation	665	617
Investment accounting services	377	349
Hardware depreciation	262	176
Computer bureau fees	53	28
	5,649	**4,573**

11. Pensions protection fund

	2011 £000	2010 £000
Scheme-based and risk-based levies	4,905	3,844
Administration levy	341	326
General levy	264	253
Fraud levy	61	-
	5,571	**4,423**

12. Professional fees

	2011 £000	2010 £000
Legal	857	686
Actuarial	746	719
Scheme changes	737	-
Surrender of Bishopsgate lease	237	-
Committee members (other than directors)	174	174
Advisory fees for the Joint Review Group	165	290
Internal audit co-source fees	152	221
Taxation and other accountancy	149	264
Public relations	126	131
Investment advisory	95	76
FSA response assistance	84	-
Investment office governance review	82	-
Member medicals	53	49
Scheme wide risk management	46	-
RI consultancy	37	93
HR support	37	44
Pensioner mortality check	33	-
Comparison of international asset managers	30	-
Review of internal audit	24	-
IT consultancy	17	92
Salary surveys and job evaluation	15	17
Club transfer factors	-	15
Other	79	120
	3,975	**2,991**

13. Auditors’ renumeration

	2011 £000	2010 £000
USS	60	57
Universities Superannuation Scheme Limited	5	5
	65	**62**

Remuneration of the company’s auditors (KPMG LLP) for provision of services other than for the audit of USS and USS Ltd was £24,500 for an internal audit review, £4,000 for a review of the Manninen tax claim and £1,500 for filing the 2008/2009 stock lending tax claim (2010: £1,500 for filing claims for recovery of overseas withholding tax).

In addition to the amounts above, £23,000 has been paid to KPMG in respect of the audit of property partnerships in which the company holds an investment. This amount has been paid by the property partnerships.

14. 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.

15. Total operating costs - recoverable from USS

		2011 £000	2010 £000
Investment management costs	Investment costs	23,608	17,696
	Personnel costs	11,915	9,919
	Premises costs	2,603	2,087
	Other costs	6,687	5,328
		44,813	**35,030**
Other administration costs	Personnel costs	8,237	6,747
	Pensions Protection Fund levies	5,571	4,423
	Premises costs	902	917
	Other costs	5,887	4,857
		20,597	**16,944**
		65,410	**51,974**

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

Included in operating costs is a charge for depreciation of £1,681,000 (2010: £1,091,000) as set out in note 16.

All of the operating costs are recoverable from USS, which at 31 March 2011 had total assets in excess of £32 billion.

16. Tangible fixed assets

	Alterations to rented premises £000	Computer equipment £000	Computer software £000	Office equipment £000	Motor vehicles £000	Total £000
Cost						
At 1 April 2010	4,326	1,703	4,495	2,627	423	13,574
Additions	247	167	305	47	180	946
Disposals	-	(326)	(11)	-	(231)	(568)
At 31 March 2011	**4,573**	**1,544**	**4,789**	**2,674**	**372**	**13,952**
Accumulated depreciation						
At 1 April 2010	2,227	1,200	3,353	1,624	215	8,619
Charge for year	485	261	666	177	92	1,681
Disposals	-	(325)	(8)	-	(169)	(502)
At 31 March 2011	**2,712**	**1,136**	**4,011**	**1,801**	**138**	**9,798**

	Alterations to rented premises £000	Computer equipment £000	Computer software £000	Office equipment £000	Motor vehicles £000	Total £000
Net book Value						
At 31 March 2011	**1,861**	**408**	**778**	**873**	**234**	**4,154**
Net book Value						
At 31 March 2010	**2,099**	**503**	**1,142**	**1,003**	**208**	**4,955**

17. Debtors

	2011 £000	2010 £000
Due from USS	8,834	5,993
Prepayments	1,640	1,546
Other debtors	88	59
	10,562	**7,598**

18. Creditors - amounts falling due within one year

	2011 £000	2010 £000
Accrued expenditure	7,265	5,445
Other creditors	4,703	5,142
Taxation and social security	2,156	1,555
	14,124	**12,142**

19. 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.

20. Reconciliation of operating costs paid

	2011 £000	2010 £000
Operating costs - recoverable from USS	65,410	51,974
Increase in creditors	(2,160)	(1,658)
Profit on sale of tangible fixed assets	27	10
Depreciation	(1,681)	(1,091)
Increase/(decrease) in debtors (excluding USS)	123	(990)
Operating costs paid	**61,719**	**48,245**

21. Operating lease commitments

The company in committed to making future annual payments under operating leases which expire as follows:

	2011 £000	2010 £000
Less than one year	9	773
Between two and five years	32	36
Over five years	1,840	1,840

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

22. 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-termand short-term objectives. The LTIP operates as a series of individual five-year plans (although this period may be reduced for staff who retire).

A summary of the plans currently in place is set out below:

Year commencing	Target	Maximum payable
1 January 2007	0.6% p.a.*	£630,000
1 January 2008	0.6% p.a.*	£825,000
1 January 2009	0.6% p.a.*	£450,000
1 January 2010	0.2% p.a.**	£1,110,000
1 January 2011	0.2% p.a.**	£940,000

* outperformance before expenses
** outperformance after expenses

Payments under each plan are triggered once the outperformance target has been achieved. The maximum payment is achieved when the outperformance is 0.5% (after expenses) over the threshold. Any amounts payable under the plan are made in the March following the end of each respective five year period. Since the year end, the Board has approved amendments to the plan such that the maximum amount payable under the plan in respect of the year commencing 1 January 2011 is now £1,080,000. The maximum amounts payable stated above exclude national insurance contributions, which will be a further cost.

For the four years to 31 December 2010, the performance of the internally managed fund has been as follows:

Year ended	Fund performance
31 December 2007	Outperformance 2.34%
31 December 2008	Underperformance 2.99%
31 December 2009	Outperformance 0.43%
31 December 2010	Underperformance 0.29%

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.

23. 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 company as trustee.

The appointment of directors to the board of the trustee is determined by the trustee 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 Councils; 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 scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The company is therefore exposed to actuarial risks associated with other institutions' employees and 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 triennial 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 actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2011 are also included in this note.

The triennial 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. 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 scheme-wide 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, increased the institution contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fluctuate and as at 31 March 2011 the market's assessment of inflation has increased slightly. The government has also announced a change to the inflation measure used in determining the "Official Pensions Index" from the Retail Prices Index to the Consumer Prices Index. The actuary has taken this all into account in his funding level estimates at 31 March 2011 by reducing the assumption for pension increases from 3.3% pa to 2.9% pa. The actuary has estimated that the funding level as at 31 March 2011 under the scheme specific funding regime had fallen from 103% to 98% (a deficit of circa £700 million). Over the past twelve months, the funding level has improved from 91%, as at 31 March 2010 to 98%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the three years 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). The next formal valuation is as at 31 March 2011 and this will incorporate updated assumptions agreed by the trustee company.

With effect from 1 October 2011, new joiners to the scheme will join the new revalued benefits section rather than the existing final salary section. This change will have an impact, expected to be positive, on the future funding levels.

On the FRS17 basis, using an AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 86%. An estimate of the funding level measured on a buy-out basis at that date was approximately 54%.

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 on a technical provisions basis as at the date of the last triennial actuarial valuation are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.5 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 participant employers and reflected in the next actuarial valuation of the scheme.

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a major exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be theoretically 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 needs 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 what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, 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 although the trustee is mindful of the desirability of keeping the funding level on the scheme’s technical provisions close to or above 100% thereby minimising the risk of the introduction of deficit contributions. 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 as at 31 March 2011 and will incorporate allowance for scheme benefit changes and any changes the trustee makes to the underlying actuarial assumptions. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

At 31 March 2011, USS had over 141,000 active members and the company had 238 active members participating in the scheme.

The total pension cost for the company was £2,689,000 (2010: £1,909,000). The contribution rate payable by the company was 16% of salaries (within the meaning of the scheme rules).

24. Related party transactions

There are no related party transactions other than transactions between the company and the Universities Superannuation Scheme (USS). The company acts as the trustee of the USS and, as such, holds investments and other assets in its own name, but these are not included in the balance sheet, as the company holds the assets as trustee of USS.

The company provides administration and investment management services to USS charging £20.6 million and £44.8 million respectively, with a balance due from USS of £8.8 million as at 31 March 2011.

25. Special purpose companies

The company owns the share capital of a number of special purpose companies to aid the efficient administration of scheme investments. Their results have not been consolidated with the company’s either because they are considered to be assets of the scheme or because they are not material for the purpose of giving a true and fair view of these accounts. 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 2011 set out on pages 82 to 95. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 81, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its result for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the accounts are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

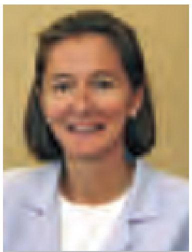
Jeremy Gledhill (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St James' Square
Manchester
M2 6DS

21 July 2011

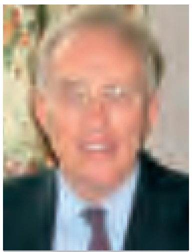
Chairman & Principal Officers

Sir Martin Harris
Chairman

Chairmen of principal sub-committees



Virginia Holmes
Investment Committee



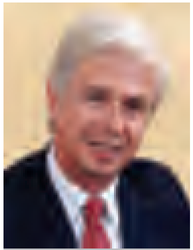
Professor John Bull
Finance & Policy Committee

Nominations Committee

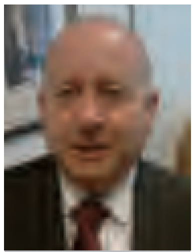
Michael Butcher
Audit Committee

Howard Jacobs
Renumeration Committee

Rules Committee



Sir Andrew Cubie
Joint Negotiating Committee



Cliff Vidgeon
Advisory Committee

Principal Officers

Back row: Colin Busby, Communications Manager, Tom Merchant, Chief Executive, Steve Grady, Head of IT, Roger Gray, Chief Investment Officer, Andrew Little, Chief Administrative Officer, Ian Sherlock, Company Secretary.

Front row: Brendan Mulkern, Pension Policy Manager, Bernie Steventon, Pensions Operations Manager and David Webster, Chief Financial Officer.

USS

UNIVERSITIES SUPERANNUATION SCHEME LIMITED