USS
UNIVERSITIES
SUPERANNUATION
SCHEME LIMITED

Report & Accounts

for the year ended 31 March 2012

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 2012 of over £34 billion. It was established in 1974 to administer the principal pension scheme for academic and comparable staff in UK universities and other higher education and research institutions.

The head office is at Royal Liver Building, Liverpool and the Investment Office is at 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

Trustee Company

Chairman's introduction

Key Highlights

- Overall fund assets increased by 4.44% to £34.2 billion as at 31 March 2012;
- Pension Fund was affected by quantitative easing policy;
- Scheme liabilities increased by 24% to £43.7 billion during the year;
- Actuarial valuation at 31 March 2011 revealed a £2.9 billion deficit;
- Funding level at 31 March 2012 77% compared with 92% at 31 March 2011;
- 10-year recovery plan now finalised and agreed; and
- Revised scheme benefits launched in October 2011;
- All 374 participating institutions have signed up to the USSonline administration service.

Sir Martin Harris
Chairman

The last year has been dominated by continuing economic uncertainties in the United Kingdom and across Europe. Although the global economy has started to emerge from the financial crisis which started in late 2008, economic markets remain fragile and it may be some time before we return to a more stable environment for pension schemes.

The Bank of England's quantitative easing (QE) policy has had a substantial effect on pension scheme funding and that, together with worries about sovereign debt and the slow pace of economic growth, has impacted substantially upon the scheme's assets and liability values during the year.

During the year ended 31 March 2012 the overall size of the fund's assets increased by 4.44% to an overall value of £34.235 billion. This included investment out-performance of 0.52% compared with the benchmark return for the financial year. Investment performance is measured based on the calendar year to 31 December 2011 and over this period the total fund's assets value increased by 0.32%, out-performing the overall benchmark return of -0.55%. The return on assets reflects the difficult year described above and, in particular, poor performance of equity portfolios generally except for Japan. The Investment Committee has continually reviewed the scheme's investment strategy during the year. You can find further details about its work on page 96.

Despite the marginally positive return on the scheme's assets, its funding level reduced from 92% at the beginning of April 2011 to 77% as at 31 March 2012. This fall in funding is largely due to a 24% increase in the scheme's liabilities over the year, mainly due to falls in gilt yields arising at least in part from the QE programme. All defined benefit pension schemes are experiencing particularly difficult funding challenges at this time. However, the board believes that careful management of the scheme's assets coupled with a long-term approach to funding and, of course, the ongoing support of the scheme's employers will ensure that USS remains viable and sustainable for the future.

One important step in support of the scheme's sustainability was the change in scheme benefits, which came into effect from 1 October 2011. The changes introduce, for the first time for USS, two different benefit sections within the scheme. Final salary benefits remain in place for existing members, while career revalued benefits have been introduced for members who join the scheme after 1 October 2011. Other changes include later pension ages, revised benefit indexation arrangements and increased employee contributions for existing members. The changes have required substantial changes to the company's systems and processes during the year, and we are grateful for the support of our participating institutions during this period.

The actuarial valuation of the scheme which took place as at 31 March 2011, revealed a funding position of 92% and a deficit of £2.9 billion. During the year, the board finalised its proposals for the assumptions underpinning the valuation, and for the required recovery plan, in consultation with Universities UK and the University and College Union. The board has now finalised this recovery plan, which will run for a 10-year period. You can read further details on page 19.

On the administration front, scheme membership has continued to increase. The total number of members grew in 2011/12 by 3.62% to 287,594. The changes to scheme benefits and the introduction of multiple benefit sections increased administrative complexity for the trustee company, and in part this has resulted in a 6.45% increase in administration costs. The majority of this increase is attributable to the rise in personnel costs; a necessary consequence of expanding the skill set within the investment team, and associated control functions, of the London Investment Office. Extra administration resource has also been required in order to operate the growing scheme and to implement key projects. However, we have been proactive in generating cost savings in other areas and this has offset the rise in personnel costs to some degree. The roll-out of our USSonline service has continued throughout the year. USSonline enables greater use of electronic processes for the administration of caseload and improves communication with members and other parties. We are extremely pleased that all of our participating institutions had signed-up to use the USSonline service by the end of the year.

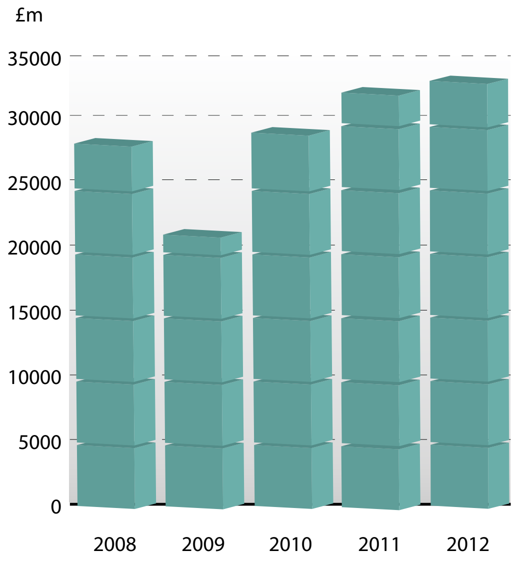
The flow of legislative change continued during the year, with important revisions to the Annual Allowance and to the Lifetime Allowance, which had an impact on a significant number of scheme members and will continue to do so. The board implemented changes to the rules to enable affected members to consider their position and elect for specific options available under the scheme. In addition, the government's plan for automatically enrolling employees into workplace pensions has gathered pace, and our largest institutions will be affected by the new requirements from March 2013. We know that institutions need responses from the trustee company on some key policy areas before they can decide on their own approach to auto-enrolment, and this work will take place early in the 2012/13 business year.

Finally, the board has confirmed its intention to create an investment management subsidiary company, known as USS Investment Management Limited (USSIM). This new company, which will be regulated by the Financial Services Authority (FSA), will be created in order to improve the governance of our investment management activities. We look forward to receiving final approval from the FSA and for USSIM to formally come into operation.

Sir Martin Harris
Chairman

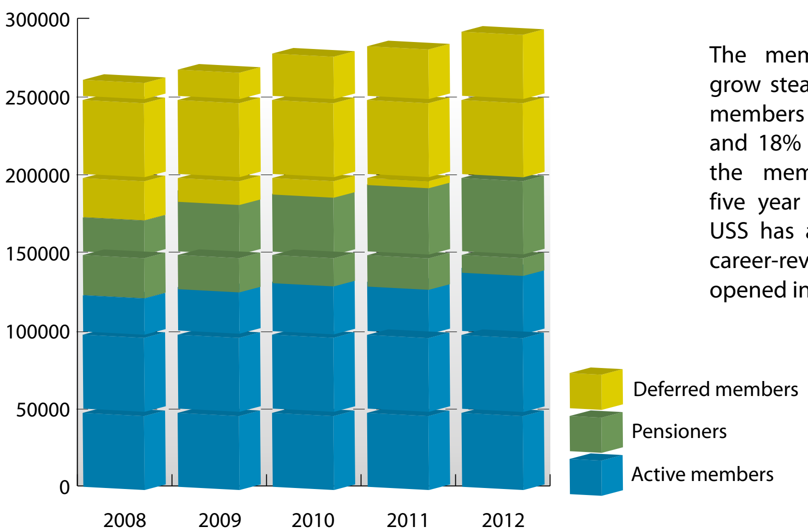
Summary of Year

Fund



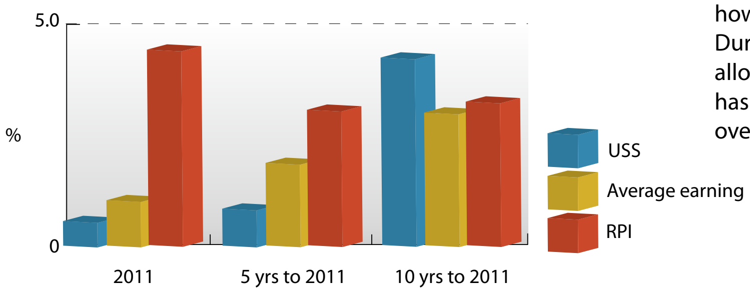
The fund's investments have risen to £34.2 billion as at 31 March 2012 from £32.8 billion in 2011. More details are given in the investment report on page 24 and in the five year summary of the fund accounts on page 64. The funding level as at 31 March 2012 is 77% compared to 92% for the previous year. Despite positive performance on the scheme's assets the fall is largely due to falls in gilt yields arising from the Bank of England's quantitative easing policy.

Membership



The membership of the scheme has continued to grow steadily. As at 31 March 2012 the total number of members was 287,594 an increase of 3.6% from last year and 18% from five years ago. More details are given in the membership statistics from page 37 and the five year summary of the fund accounts on page 64. USS has also welcomed over 5,700 new joiners to the career-revalued benefits section of the scheme which opened in October 2011 to new eligible members.

Performance



The fund's position has continued to recover from the adverse market conditions experienced in 2008. The 5 year returns are below both RPI and average earnings, however the 10 year returns are above both measures. During the year the fund outperformed its strategic asset allocation benchmark by 0.9% and over the last five years has returned 1.1% per annum, in line with its benchmark over that period.

Board Members

Sir Martin Harris, Chairman

Martin Harris (68) 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, a position from which he will retire at the end of August 2012.

Professor John Bull CBE

Professor Bull (72) 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 (65) 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 was a member of Loughborough University Audit Committee from 2003 to 2011 and was also the lay member on their IT Projects Steering Group.

Professor Dame Glynis Breakwell

Professor Dame Glynis Breakwell (60) 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 Dame 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 (59) 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 an independent member of the Aviva with Profits Committee and Deputy Chair of Governors of University College, Falmouth.

David Guppy

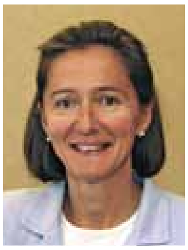
Dave Guppy (68) worked in the computing service at University College London from 1979 to 2009. Prior to that he worked in similar roles at the London Hospital Medical College, a software co-operative and IBM. He was President of University College London Association of University Teachers (2002/04) 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 (69) 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 (67) 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 (52) 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 (53) 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 (52) 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.

Principal officers & advisers

The principal officers and advisers of the trustee company at 1 August 2012 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

Head of IT
S Grady

Chief Operating Officer - Investments
H Brindle

Company Secretary
I M Sherlock

Actuary
E S Topper
Mercer
Manchester
M2 4AW

Solicitors
DLA Piper UK LLP
Liverpool
L2 0NH

Auditors
KPMG LLP
Manchester
M2 6DS

Bankers
Barclays Bank Plc
Manchester
M2 1HW

Membership of Committees

The membership at 31 March 2012 of the principal committees was as follows:

Board
Appointed by Universities UK (UUK)
Sir Martin Harris (Chairman), Professor Dame Glynis Breakwell, Professor David Eastwood, D McDonnell
Appointed by the University and College Union (UCU)
J Devlin, D Guppy, J W D Trythall
Co-opted
Professor John Bull, M G 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 Dame Glynis Breakwell, Professor John Bull, A Docherty, R Gillson, A Gulliford, D Guppy, Sir Martin Harris, D McDonnell

Audit Committee
Appointed by the board
M G Butcher (Chairman), Professor John Bull, J Devlin, D McDonnell

Remuneration Committee
Appointed by the board
H R Jacobs (Chairman), Professor Dame Glynis Breakwell, M G 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 Collins, J Gluza

Nominations & Governance Committee
Appointed by the board
Professor John Bull (Chairman), Professor David Eastwood, D Guppy, Sir Martin Harris, T H Merchant

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
A Carr, G Egan, Dr A Roger, Dr S Blackwell, Dr M Hersch

Board Report

Board Report

Key Highlights for the year ended 31 March 2012

- The board met seven times in the year.
- The trustee directors took part in several activities during the year to improve board effectiveness.
- Scheme changes came into force on 1 October 2011. This saw the creation of a new career revalued benefits section for new entrants. Over 5,700 members by year end.
- The roll-out of USSonline was completed by March 2012.
- Results of the triennial valuation as at 31 March 2011 have been published.
- Due to a £2.9 billion deficit, a 10-year recovery plan has been finalised.
- Operating costs over the year increased by 6.4% to £69.6 million compared with £65.4 million in 2011.
- The risks of the funding level of the scheme are an ongoing concern for the board, mainly due to the economic climate and unpredictable investment returns.
- USS pensions were increased by 5.2% on 21 April 2012, reflecting the increase in CPI to September 2011.

Governance

Directors/board membership

The fund is managed by the trustee in accordance with the Trust Deed and Rules. The trustee is Universities Superannuation Scheme Ltd (USS Ltd), a company set up solely to act as corporate trustee of the fund.


Meeting of the board

Under the articles of association the trustee board (the board) consists of between 10 and 12 non-executive directors and comprises:

- Four directors nominated by Universities UK (UUK);
- Three directors nominated by the University and College Union (UCU), one of whom is the pensioner member; and
- Between three and five independent directors appointed by the board.

Previously the Higher Education Funding Councils (HEFC) were entitled to appoint one director. As part of a review of their activities and responsibilities, the HEFC nominated director resigned and, at the request of the funding councils, the articles of association were amended to remove references to the funding councils.

Responsibilities of the board and executive

The board is responsible for the management and governance of the scheme ensuring that the promised superannuation benefits are paid to all beneficiaries in line with agreed timescales. In order to do this the board must ensure that:

- USS is adequately funded;
- the scheme's investment policy is appropriate for the scheme's liabilities;
- the trustee company's standards of performance are at a level with which the members and participating institutions are content;
- the scheme continues to meet the needs of the UK higher education sector; and
- USS is compliant with the requirements of the various regulatory bodies.

Board and committee meetings

The board met seven times in the year and considered more than 160 items of business making decisions. The average attendance for board meetings was 87%. Attendance figures for individual directors are below:

	Board	Investment	F&PC	Audit	Remuneration	Rules	Nominations
Group meetings held in the year	**7**	**5**	**4**	**5**	**6**	**6**	**2**
Sir Martin Harris	6 (7)	5 (5)					2 (2)
Professor John Bull	7 (7)	5 (5)	4 (4)	5 (5)			2 (2)
Professor Dame Glynis Breakwell	6 (7)	4 (5)			5 (6)		
Mr Michael Butcher	7 (7)			5 (5)	6 (6)		
Mr Joseph Devlin	7 (7)		4 (4)	5 (5)	6 (6)		
Professor David Eastwood	4 (7)		2 (4)				2 (2)
Mr Steve Egan	6 (7)			3 (5)			
Mr David Guppy	5 (7)	4 (5)					2 (2)
Mrs Virginia Holmes	7 (7)	5 (5)	4 (4)				
Mr Howard Jacobs	7 (7)		3 (4)		6 (6)	6 (6)	
Mr David McDonnell	5 (7)	4 (4)		5 (5)	6 (6)		
Mr Bill Trythall	6 (7)		4 (4)			6 (6)	

Board effectiveness and training

The following activities were carried out in the year to improve board effectiveness:

- annual appraisal interviews for each director with the trustee board chairman;
- annual assessment of the members of each committee by the relevant committee chairman against the skills matrix for the particular committee; and
- a skills audit, when agreed skill sets and actual skill levels for the board and each committee were reviewed against the needs of the business and the requirements for trustee knowledge and understanding set out by the Pensions Regulator.

The board held a number of education and training sessions during the year, including sessions on the risk framework, the use of derivatives, layered asset allocation, valuation methods, modelling and analysing demographic risks, actuarial valuation and applying contribution rates under the new multi-section structure.

Review of the year

Scheme changes

During the year a number of substantial changes to the scheme were implemented after a prolonged period of discussion by a specially established scheme review group comprising the scheme's stakeholders, and latterly by the Joint Negotiating Committee. The changes came into force on 1 October 2011 and represent the most substantial revisions to scheme benefits and contributions which have taken place in USS since the scheme's inception in April 1975. The main change was the creation of a new career-revalued benefits section for new entrants to the scheme. Other changes were made to the normal pension age for future service and the arrangements for pension increases. In addition and subject to employer's consent, a flexible retirement option was introduced to enable members, with their employer's consent, to phase in their retirement. Details of the scheme changes can be found on the USS website at www.uss.co.uk

During the year the trustee board has overseen the implementation of changes to the company's administrative systems and processes in order to give effect to the scheme changes, which has also involved considerable support and assistance from the scheme's participating institutions. The trustee board would like to put on record its appreciation to institutions for their co-operation during what has been a challenging year for the trustee company. They have played a significant part in ensuring that a relatively smooth implementation of the changes was achieved. Nevertheless, there is much work for the trustee company to do to complete all changes to business processes, and this will continue throughout 2012.

USSonline

The roll-out to all institutions of USSonline, our new online administration service for institution administrators, was completed at the end of March 2012. Almost 900 users have been registered for the new system, which has been well received by administrators who appreciate the access USSonline gives them to the USS records of their members. This makes completing forms much easier and, for example enables institutions to provide members with retirement and added years AVC quotations without referring to USS.

USSonline is still under development and improvements are planned to respond to the feedback received from users and to further increase the efficiency for both users and USS.

Triennial valuation

The formal triennial valuation was carried out with an effective date of 31 March 2011. Further details are set out on page 18.

Scheme Mergers

The company's revised mergers policy was launched during the year, which permits mergers with USS of the support staff schemes run by participating institutions. The merger terms were revised following the 2008 actuarial valuation of the scheme and they are considered to be a balanced basis upon which schemes may be joined with USS, allowing employers to relinquish their administrative, management and trusteeship roles for these schemes. During the year there has been interest from prospective candidate schemes in approaching USS with a view to merge. Where terms have been agreed, we intend to progress with these mergers thereby strengthening institutions' commitment to USS. We look forward to welcoming these schemes into USS and look forward to engaging in dialogue with other institutions, in the future, as this process gathers momentum. Further comprehensive information about the USS mergers policy is available on the USS website.

Governance policy

A Corporate Governance Working Group (CGWG) was established by the board in 2010 to carry out a comprehensive review of governance arrangements in the company to ensure that they remain fit for purpose, effective and operating at the highest standards as well as identifying opportunities for improvement. The review included a detailed assessment and analysis of the allocation and delegation of responsibilities throughout the organisation with the objective of enhancing the roles and relationships, where possible, of all relevant governance bodies.

Having completed the review, the CGWG identified and recommended actions to deliver improvement to governance arrangements which were considered and agreed by the board. Relevant recommendations have also been shared with the scheme's stakeholders to ensure that they support and endorse the proposals.

The majority of recommendations have been consolidated into a draft governance framework which brings together all governance documents including policy, updated procedures for recruitment, induction, training and performance management and job descriptions for key positions. In recognition of its broader remit, the nominations committee has been renamed the nominations and governance committee.

The CGWG also stimulated a review of the structure of its investment management operations and decided to create a wholly owned investment management subsidiary, USS Investment Management Limited ("USSIM"). A two-company group structure will be established which is more in line with the governance framework used by other UK pension funds, and which is better suited to managing the increased scale and complexity of the scheme's investment activities. FSA authorisation will move from the trustee company to USSIM. The trustee company will retain its responsibility for key areas such as the strategic asset allocation and oversight duties, and will continue to be regulated by the Pensions Regulator. It is not intended that USSIM will manage investments or offer advisory services to any other organisation.

Taxation changes

During the year the government finalised changes to the rules relating to lifetime allowance and to annual allowance, and most significantly reducing the latter allowance from £255,000 to £50,000 thus drawing many more individuals into circumstances where a tax charge applies to the level of pension accrual which they have accrued in any particular scheme year. In response, the Joint Negotiating Committee (JNC) decided on three new, specific options which members can use to reduce or eliminate their liability to annual allowance, and in certain cases (and for a limited period) to be used in conjunction with one of the Revenue's lifetime allowance protection options. These new tax options were introduced in January 2012 in the sixth deed of amendment.

Financial performance

Funding position

The triennial valuation of the scheme as at 31 March 2011 was completed in June 2012. As at the effective date and as measured on the technical provisions basis, the net assets of the scheme represented 92% of the scheme's liabilities.

Whilst there has been a small increase in the value of the scheme's assets over the year, the rise in the price of UK Government bonds (or "gilts") has meant a reduction in the discount rate used to determine the present value of the scheme liabilities. The price of UK gilts has risen as a result of the Bank of England's quantitative easing programme, and investors have sought safe haven investments in the midst of the turbulence of Eurozone government debt markets.

As at 31 March 2012, the estimated funding ratio was 77%.

Operating costs

The operating costs for the year amounted to £69,628,000 (2011: £65,410,000), representing an overall increase of 6.45% compared to the prior year. Membership of USS has continued to grow steadily and during the past twelve months has increased from 277,552 to 287,594, an increase of 3.62%.

A summary of operating costs for the year is as follows:

	2012 £000	2011 £000	Variance £000	Variance %
Personnel costs	26,186	20,152	6,034	30
Premises costs	3,590	3,505	85	2
Investment costs	21,412	23,608	(2,196)	(9)
Other costs	18,440	18,145	296	2
Total	69,628	65,410	4,218	6

The largest increase in operating costs relates to personnel. This is due to a number of factors. Overall headcount has increased by 10%, primarily due to the expansion of the skill set within the investment team and associated control functions of the London investment operation. In addition, extra resource was required to manage the increased administration workload generated by the scheme's growing membership and to implement scheme changes and other key projects. Relative performance of the internally managed fund improved in 2011. This triggered larger awards for London Investment Office (LIO) staff under the company's incentive plan. However, the 2007 Long Term Incentive Plan (LTIP) award, which is based on longer term cumulative fund performance, has lapsed and was not paid during the year.

The increase in personnel costs has been offset to some degree by cost savings generated from reduced securities research costs, less use of external managers and the reduction in external manager performance fees. The board also achieved cost reductions in other areas and savings have also been realised in rent review and letting fees on the property portfolio due to the timing of such reviews.

USS is classified as a last man standing non-associated centralised multi-employer scheme for the purposes of the Pension Protection Fund (PPF) levy calculation. A critical aspect of this calculation is the risk-based levy scaling factor, which is based on the weighted insolvency probabilities of all the scheme's participating employers. USS benefits from a favourable risk scaling factor given the strong financial positions of its participating employers.

The trustee company operates in a highly regulated environment and is regulated by the Pensions Regulator and the Financial Services Authority.

Both primary regulators are reviewing their operations to ensure they meet their statutory obligations. Inevitably, changes of approach and new requirements from regulators lead to additional costs for regulated firms. USS is no exception and we continue to incur significant costs through ensuring that the impact of new requirements is understood and that the company has the appropriate people and other resources in place.

The changes to the tax relief limits have caused further costs to be incurred. The ongoing challenge of meeting the requirements of auto-enrolment will add further to the cost base of the trustee company.

Unlike many other large pension schemes, USS does not outsource key functions, such as pensions administration and investment management; the board believes that the scale and complexity of these functions mean that they can be carried out more cost-effectively in-house.

To provide assurance that the board's belief is validly held, the company participates in an annual benchmarking exercise covering both pensions administration and investment management. This exercise is conducted by an independent third party and compares USS cost data with an international peer group of comparable funds.

Headcount in LIO has grown over the year from 88 to 93. Since the arrival of Roger Gray as Chief Investment Officer, the capability of the investment function has been broadened to cover an increase in alternative investments, emerging markets and infrastructure. Further investment in additional headcount is expected in 2012/13 to ensure that the necessary skills are maintained in-house.

External investment management resources will continue to be used where it is cost effective to do so. During the year, an allocation of £800 million was made to a new asset class for the scheme, investment grade credit. This allocation was made across three external managers providing differing styles and risk profiles.

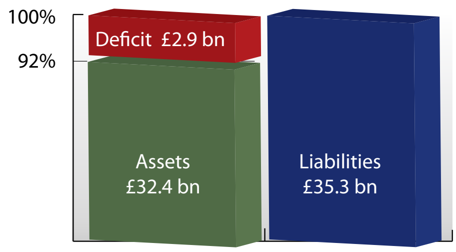
Triennial valuation

The three-yearly actuarial valuation of USS took place as at 31 March 2011. The process involved detailed consideration by the trustee board and the scheme actuary of the scheme's underlying member data, of demographic patterns and movements within the membership, and of financial information regarding the fund and its investments. The valuation also looked at the covenant provided to the scheme by its sponsoring employers and, for the first time in 2011, the trustee board engaged an independent adviser to provide an assessment of the employers' covenant strength.

The valuation process also looked at the wider economic landscape, and brought together the analysis of scheme experience and the likely pattern of future changes in the membership, with the economic prospects for the scheme and for its investments. The trustee board gathers this information in order to be able to propose and, after consultation, adopt prudent assumptions to determine the value of the scheme's liabilities at the valuation date. These liabilities are referred to formally as the scheme's 'technical provisions'.

The funding level of the scheme as at 31 March 2011 was as follows:

Assets	£32.4 billion
Liabilities (technical provisions)	£35.3 billion
Deficit	£2.9 billion
Funding level	**92%**



External covenant assessment

As a result of the revised guidance issued by the Pensions Regulator in December 2010, the company appointed Ernst & Young LLP to provide advice on the assessment of the employers' covenant to support the liabilities of the scheme.

The challenge of the exercise was to ensure that sufficient evidence was gathered to support the valuation exercise whilst ensuring that the approach taken was proportionate.

Ernst & Young's report, together with information from the funding councils, was used as the basis for the board's assessment of the strength of the covenant. The overall conclusion was that the covenant remains robust and has good longevity, but this must be balanced against the fact that significant cash contributions cannot be made in the short-term. The board will continue to monitor the strength of the covenant and will work with its external advisers.

Actuarial assumptions

The technical provisions must be drawn up in a prudent manner. The board considered the prudence of assumptions, both individually and as a whole.

Changes were made to two key assumptions: the discount rate and the mortality assumptions.

The discount rate used to determine the present value of the scheme's liabilities was reduced from gilts +2% to gilts +1.7%. This caused the valuation of the liabilities to increase by £1.8 billion. The rationale for this change was a reduction in the anticipated long-term return on assets.

The scheme's actuary undertook a detailed review of the scheme's actual mortality experience against the actuarial profession's standard tables. The size of the scheme means that meaningful information can be determined and a more accurate table used. The board also considered the likely improvement in life expectancy in the future and factored this into the valuation on the advice of the scheme actuary.

Consultation by the trustee board on matters relating to scheme funding

In accordance with the scheme rules and the statutory requirements, the trustee board has consulted with UUK, the representative employer for these purposes in USS, on matters relating to the determination of the scheme's technical provisions and the proposed recovery plan. The trustee board has also consulted with representatives of UCU on these matters, and once again these have proved to be helpful exchanges which have helped refine and finalise the trustee board's proposals in these areas.

The trustee board will continue to ensure that the process of dialogue and consultation on scheme funding issues with the scheme's stakeholders continues throughout the coming year, and as we look ahead to the next valuation as at 31 March 2014.

Recovery plan

In accordance with the scheme specific-funding regime for defined benefit pension schemes, the fact that a deficit existed at the valuation date meant that the board needed to draw up a recovery plan. Setting out the board's plan for eliminating the funding deficit. The plan is compiled with great care, taking into account the economic circumstances of the scheme, the strength of the sponsoring employers and their capacity to meet deficit contributions, and the trustee board's investment strategy and beliefs.

After formal consultation with the employers, the board adopted a recovery plan to run for a 10-year period. This involves the employers continuing to pay a contribution of 16% of salaries for the first six years of the 10-year plan, with an additional contribution of 2% above the then future cost of accrual for the remaining four years. In addition to these contribution requirements, the plan also assumes that an additional 0.51% a year investment return, over and above the underlying prudent investment return assumption, will be received.

The board has undertaken an annual funding review of the scheme as at 31 March 2012 to review the progress of the recovery plan and consider if any other actions are necessary. The board is aware that the economic circumstances which have prevailed throughout 2011 and into 2012 and, in particular, the slowdown in growth in the developed economies of the world and continuing uncertainties regarding the future of the Eurozone countries, will present substantial challenges to pension scheme funding. Whilst the board is able to adopt a longer term approach to funding the scheme, the present economic difficulties are a concern and the board will continue to monitor closely the effect of these developments on scheme funding.

Strategic asset allocation review

Following the triennial actuarial valuation, the investment committee reviewed the strategic asset allocation (SAA) to ensure that it remained appropriate for the scheme. As a result, some adjustments were made in early 2012 and some were targeted for implementation in the period ahead. This included a further reduction in the allocation to developed market equities and a small reduction in the targeted allocation to property, an increase in the allocation to emerging market equities and infrastructure and a new allocation to emerging market debt. In aggregate, these moves do not change the expected return on the scheme's assets but provide some extra diversification and modestly reduce the asset-liability mismatch risk being run by the fund. The allocation to infrastructure will take some time to be filled as the fund will seek high-quality assets which meet its risk and return requirements.

The investment committee has also used the SAA review to re-examine where it uses external managers. In line with the scheme's investment beliefs, the investment committee has decided to focus the use of external managers in areas where LIO does not have proven investment capability. The committee believes this approach will provide the scheme with the best value for money, with less duplication of costs. As a result, the global equities mandate managed by Capital International has been terminated. These assets will be used, over time, to fund the new investments in infrastructure and emerging market debt. The infrastructure programme will be managed by the internal investment team at LIO, and in the future USSIM, but will make extensive use of external expertise and a partnership or co-investment approach where appropriate. In contrast, the emerging market debt allocation will be managed by external managers, selected and appointed by USSIM. The committee recognise the absence of this specialist expertise internally and do not consider it cost-effective or efficient to build internal expertise in this area at this time.

Principal risks and uncertainties

Risk management and internal control systems

During the year, the board considered and approved a comprehensive risk governance policy which codified various streams of work that had evolved over recent years.

The risks associated with the funding level of the scheme remain the key concern for the board and the trustee company will be engaging further with sponsoring employers in 2012 to enable risk appetite to be better specified.

Operational risks are reported to and are reviewed by the Finance and Policy Committee (F&PC) and the board. Any identified weaknesses are discussed with management and an action plan is agreed to address them.

Current hot topics

(a) Risk appetite

The real rate of return on gilts is very low and, given the uncertainties in the economic climate, it is difficult to predict when, and indeed if, gilt yields will return to "normal" levels. The policy of quantitative easing, which has seen the Bank of England buy £325 billion of gilts, has contributed to the fall in yields and the unwinding of these positions may cause yields to rise. This is not certain and some commentators point to the Japanese situation where rates have remained low for a considerable number of years.

Whilst efforts are made to diversify the scheme's investments to reduce risk, generating sufficient returns in the current environment to close the deficit will be challenging. The formal triennial valuation in 2014, and possibly 2017 too, will show a significant deficit unless gilt yields rise substantially.

Over the past year, the board has received a number of presentations on investment risk and the impact different investment strategies have on the volatility of investment returns and the funding of the scheme as measured by the technical provisions.

(b) Solvency II

Solvency II presents a significant risk to all defined benefit schemes, including USS. We have been closely monitoring the proposed review of the Institutions for Occupational Retirement Provision (IORP) directive and, in particular, proposals for revised funding requirements. The Solvency II funding regime is already becoming a reality for insurers in the EU and strong lobbying bodies within this industry would like to see defined benefit pension schemes subject to a similar regime, their argument being on the grounds of promoting consistency across the wider financial services industry. However, we believe the industries are sufficiently different and that defined benefit schemes should not be subject to the same requirements as the Solvency II regime.

Like Basel III, the regulatory framework for banks, Solvency II boasts a three 'pillar' approach. Pillar one considers the quantitative requirements, including additional capital requirements; pillar two is concerned with governance; and pillar three covers disclosure requirements and communications. It is pillar one that is presenting the UK pensions industry with significant risks. This would necessitate changes to the method of valuing assets and liabilities, the requirement for a holistic balance sheet and the need to satisfy new solvency capital requirements.

In order to estimate the potential impact Solvency II would have on USS, we performed some estimated calculations. The estimate resulted in funding requirements, with the revised valuation of the scheme liabilities and the additional capital requirements, at nearly double their present level. This would be offset, to an unknown extent, by the application of a holistic balance sheet. The concept of this balance sheet is to assign financial values to 'assets' such as the value of the sponsor covenant, the value to the scheme of the Pension Protection Fund and the value of contingent assets (property for example) held by the scheme sponsors. However, it is hard to imagine the financial values assigned to these items for most schemes being sufficient to offset the vastly increased value of the present commitments through the solvency capital requirements.

We believe that if Solvency II were to have only a fraction of the impact that our predictions suggest, it would be incredibly damaging to most, if not all, DB schemes in the UK. Not only would the proposals be disastrous for most pension schemes, they would reduce the profitability of sponsoring employers with substantial increases to pension contributions being required.

(c) Changes in the sector and employer debt

USS has been active in developing and implementing mechanisms to deal with changes in the pension industry. These include the introduction of flexible retirement for multiple appointment members, auto-enrolment and the taxation information requirements for the annual allowance. There has also been substantial activity in the area of employer debt. This continues to be a major area of activity for the trustee company and the board has put in place a framework setting out when a form of arrangement may be entered into to modify the debt in particular circumstances.

(d) Scheme mergers

Last 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. During the year there has been much interest from prospective candidate schemes approaching USS with a view to merge. Where terms have been agreed, we intend to progress with these mergers thereby strengthening intuitions' commitment to USS. We look forward welcoming these schemes into USS and engaging in dialogue with other institutions, in the future, as this process gathers momentum.

Other matters

Pensions increases

USS pensions are generally increased in line with increases to 'official pensions' under the provisions of the Pensions (Increase) Act 1971, although scheme changes introduced from 1 October 2011 introduced limits on such increases in respect of rights that accrue after that date. From April 2012 USS pensions which started in payment before April 2011 were increased by 5.2% representing the increase in the consumer price index over the 12 month period to September 2011. Pensions which commenced after April 2011, and those pensions which contain a proportion of post-October 2011 rights, received a proportionate increase. Deferred pensions and deferred lump sums were increased at the same rate.

Institutions' meeting

The annual meeting with institutions' representatives took place in London in December 2011. A report of the proceedings and meeting content is available on the USS website.

Late payments

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.

Internal dispute resolution (IDR) process

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 three occasions to consider the decisions given by the pensions operations manager at stage one of the internal dispute resolution procedure. Five cases were considered at stage two of the procedure. In all five cases, the officers' decision at stage 1 of the internal disputes resolution procedure was upheld.

Contribution rates

The rates of ordinary contributions payable by members and institutions between 1 April 2011 and 31 March 2012 were as follows:

From 1 April 2011 to 30 September 2011

USS main section	Member	6% of salary
	Institution	16% of salary
USS supplementary section	Member	0.35% of salary
	Institution	Nil

Final Salary Section

From 1 October 2011 to 31 March 2012

USS main section	Member	7.15% of salary
	Institution	16% of salary
USS supplementary section	Member	0.35% of salary
	Institution	Nil

Career revalued benefits section (CRB) – 1 October 2011 to 31 March 2012

USS main section	Member	6.15% of salary
	Institution	16% of salary
USS supplementary section	Member	0.35% of salary
	Institution	Nil

Non-joiners

During the year, USS Ltd was notified of 3,620 employees who became eligible to join the scheme but elected not to do so.

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, the 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.

Auditors

KPMG LLP has been the external auditor to the scheme and the trustee company since 2004. Like the other "Big 4" audit firms, KPMG has other divisions which offer advice and consultancy services on a range of issues. Following a review, the audit committee has decided to put the external audit out to tender to firms outside the "Big 4" so that the investment team is able to select the best professional team without compromising the auditors' independence.

Acknowledgements

The chairman would like to thank Mr Steve Egan for his contribution to USS matters during his term of office on the board and also on the USS audit committee.

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.

Sir Martin Harris
Chairman

Investment Report

Key Highlights for the performance year ended 31 March 2012

- Scheme's asset value rose by 4.4% or £1.5bn over the year.
- Falling UK Gilt yields increased the value of the Scheme's liabilities by 24% or £8.4bn.
- Investment outlook remains challenging – below trend global growth, no early resolution to the Euro crisis.
- Infrastructure investment capability expanded.
- Continued active engagement with regulators, governments and corporates to protect the Scheme's interests.

Global market review

Market conditions remained challenging for pension funds as yields on index-linked and conventional government bonds continued to fall through the year. Falling UK gilt yields reduce the discount rate used to calculate pension liabilities, which in turn push up the value of these liabilities. The yield on ten-year UK Index linked gilts fell from +0.6% on 31 March 2011 to -0.6% on 31 March 2012. An investor who bought these securities on 31 March 2012 and who holds them to maturity is guaranteed to lose money in real terms. The UK (CPI) inflation rate during 2011 was 4.2%.

The decline in bond yields led to a strong performance from government bond indices, for example the FTSE Actuaries UK Government Securities Indices returned between 18% and 21% depending on the maturity used. In contrast equity markets made very little headway, with the MSCI World index rising a mere 1% on a total return basis (i.e. including dividends returned to shareholders during the year). Asian and Continental European equity markets were particularly weak during the year as growth and global recession fears came back to the fore. Property, measured by the IPD Large Life & Pensions Property Index, outperformed equities rising 6% over the year to end March. Within the asset classes included in Alternatives, private equity and infrastructure markets were relatively strong performers whilst the hedge fund portfolio lagged behind.

USS investment management structure

USS has, over many years, built up its internal investment team, the London Investment Office or 'LIO'. The internal manager is focused on delivering the investment requirements of the scheme over longer time horizons, rather than on commercial objectives. This supports better alignment of interests than may often be achieved with external managers. However, there are some areas of investment which are sought for the scheme, but where the internal skills, experience or operational capability is not present and where it may not be cost-effective or desirable to build an internal investment team. In these circumstances, external managers are selected, typically on the advice of the LIO. In addition, within the LIO, both the alternative asset and property teams manage their respective portfolios with the assistance of external managers and investment advisors. The following table shows the investment managers appointed by the board, their mandate and the percentage of the total scheme they managed as at 31 March 2012:

	Mandate	% Assets
LIO actively managed	Multiple	71%
LIO Alternatives	Multiple external funds and providers	17%
UK Index Fund (advised by HSBC Quantitative Techniques)	FTSE All Share index tracker	5%
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%
Capital International	Global Equities	5%

The Capital International mandate was terminated on 3 April 2012, reflecting the progressive reduction in the scheme's asset allocation to listed equities and the decision to rely on the equity management capabilities within LIO. The property team at LIO uses external investment advisors, property management services and some externally managed property funds to assist their work on the USS portfolio. Advisory and property management contracts are competitively re-tendered on a periodic basis every five years and are subject to an interim review after three years. The contracts currently in place are shown in the following table:

Role	Portfolio	
Investment Advisory	Retail and Leisure	Jones Lang LaSalle
	Offices and International Indirects	DTZ Investment Management
	Industrial	Jones Lang LaSalle
Property Management	Shopping Centres and High Street	Workman & Partners
	Retail Parks and Offices	Workman & Partners
	Industrial	Jones Lang LaSalle

Summary of the Statement of Investment Principles

The Statement of Investment Principles ("SIP") establishes the broad principles governing the investment policy of the scheme and provides information on other key aspects of the scheme's investment programme. The board reviews the statement at least every three years and without delay if there are any significant changes in investment policy or if the board considers that a review is needed for other reasons. The statement is agreed by the board on written advice from the investment committee, the scheme's external investment consultants and the Scheme actuary and following consultation with the participating employers. The investment committee monitors compliance with this statement at least annually and obtains confirmation from the investment managers that they have exercised the powers delegated to them in keeping with the principles contained in the SIP as far as reasonably practicable.

Cannon Street

The full document can be found on pages 31 to 36. It contains additional information on the trustee company's approach to risk, risk diversification, governance, responsible investment and the strategic investment benchmark.

Whilst the investment principles remain unchanged, the investment committee did amend the Strategic asset allocation during the year in light of the most recent actuarial valuations and the prevailing economic and market conditions.The expected "normal" long term real return assumptions for various asset classes are also detailed. These are shown in the table below:

Equities	5%
Alternative Assets	5%
Property	3.75%
Fixed Income	2%
Index-Linked	1.75%

These returns are calculated relative to UK CPI and actual returns in any one year may differ materially from these estimates of normal returns. The return on alternative assets depends on the blend of strategies and assets included in this category. Expected returns in private equity are above those in listed equities, while infrastructure and absolute return strategies (focusing on hedge funds aiming to produce positive investment returns even in falling markets) will generally be below those in listed equities. The scheme takes these normal central assumptions into consideration, along with current market valuation levels, the economic environment and other relevant factors when it establishes its strategic asset allocation policy.

During the last financial year, the scheme did not make any investments which were not in accordance with the SIP.

Custody of the scheme's assets

The scheme's assets are either held in the name of the scheme or are held with an independent professional custodian. The trustee company, on recommendation from its investment committee and investment advisers, is responsible for appointing custodians for the scheme's assets.

The scheme's custodians are responsible for the safekeeping of the scheme's assets and perform the associated administrative duties (e.g. trade settlement, dividend collection, corporate actions, tax reclaims and proxy voting).

The scheme has appointed JPMorgan Chase to act as custodian for the majority of the assets managed by LIO. Bank of New York Mellon acts as custodian for an external managed mandate in Investment Grade non-government bonds.

Investment Performance

Investment performance is measured on a calendar year rather than financial year basis. This is due to the frequency of revaluation of the scheme's less liquid assets and to the decision to measure the property portfolio against an industry standard index which is only calculated annually with a December year end. Unless otherwise stated, the commentary in this section refers to calendar years i.e. 2011 is the year to December 2011.

The total fund rose 0.3% in 2011 outperforming its strategic asset allocation benchmark by 0.9%. Over the last five years the total fund has returned 1.1% p.a. almost exactly in line with its benchmark over the period. The LIO outperformed its benchmark over both the one and five year periods. The HSBC-advised UK index fund slightly outperformed its benchmark during the year and over five years. The external managers in investment grade non-government bonds who were appointed in the 2011 outperformed overall. The external equity managers (of whom only Capital International remained in 2011) underperformed over the five years and in 2011.

The performance of the individual managers and the total fund for 2011 and the last five years is shown in the table below:

	2011			Five Years (annualised)		
	Fund	**Benchmark**	**Relative**	**Fund**	**Benchmark**	**Relative**
LIO	+0.93%	-0.12%	+1.05%	+1.09%	+1.00%	+0.09%
Capital International	-7.86%	-6.28%	-1.69%	+2.01%	+2.88%	-0.85%
UK Index Fund	-3.37%	-3.46%	+0.09%	+1.29%	+1.20%	+0.09%
Total Fund	+0.32%	-0.55%	+0.87%	+1.14%	+1.18%	-0.04%

The following table shows the performance of the individual managers and the total fund for the financial year ending March 2012:

	Year to March 2012		
	Fund	**Benchmark**	**Relative**
LIO	+4.91%	+4.20%	+0.68%
Capital International	-1.89%	+0.03%	-1.91%
UK Index Fund	+1.40%	+1.39%	+0.02%
Total Fund	+4.31%	+3.77%	+0.52%

Distribution of the scheme's assets

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 2012. The table excludes the AVC programme managed by Prudential.

%	Fund	Benchmark (SAA)	Active Position	Tolerance Range
Equities	58.0	58.6	-0.6	+/-7.5
Developed Markets	49.2	50.1	-0.9	
UK	19.5	20.0	-0.5	
N America	7.3	9.0	-1.7	
Europe	13.1	12.0	+1.0	
Japan	6.6	6.0	+0.6	
Pacific ex Japan	2.7	3.0	-0.3	
Emerging Markets	8.9	8.5	+0.4	
Alternatives	16.4	16.3	+0.1	+/-10
Private Capital	10.0	10.1	–	
Infrastructure	2.7	2.6	+0.1	
Absolute Return	3.6	3.6	–	
Others	0.1	0.0	–	
Fixed Income	14.8	17.4	-2.6	+/-5
Global Government	9.0	10.4	-1.3	
Liability Hedging Portfolio	3.2	4.5	-1.3	
Investment Grade Credit	2.6	2.5	+0.1	
Property	7.8	7.8	-	+/-5
Cash	3.0	0.0	+3.0	-5/+10
Total Fund	**100.0**	**100.0**	-	

N.B. table may not sum due to rounding

The investment committee takes the liquidity of the asset classes together with the liability and cash flow profile of the scheme into consideration when it recommends the strategic asset allocation to the board. The investment committee periodically reviews the overall allocation to illiquid assets (i.e. property and some alternative assets). Illiquid assets presently make up less than a quarter of the scheme's assets. The board is comfortable that this allocation is not excessive, given the positive cash flow profile of the scheme, the strength of the employer covenant and the expected higher returns which are available from less liquid asset classes.

Summary investment exposures as at 31 March 2012

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 and indirect/advised		Externally Managed - direct		Total	
	LIO	Index Fund	Capital Int'l	Prudential	31 March 2012	31 March 2011
	Active	Passive	Active	Active		
Equities	14,234	1,577	1,545	-	17,355	18,361
Developed Markets	11,583	1,577	1,263	-	14,422	16,185
UK	4,085	1,515	130	-	5,729	7,106
non UK	7,498	62	1,133	-	8,693	9,078
Emerging Markets	2,651	-	282	-	2,933	2,176
Alternatives	5,719	-	-	-	5,719	5,221
Private Capital	3,545	-	-	-	3,545	2,932
Infrastructure	788	-	-	-	788	949
Absolute Return	1,199	-	-	-	1,199	1,007
Others	187	-	-	-	187	334
Fixed Income	5,434	-	-	-	5,434	4,134
Global Government	3,344	-	-	-	3,344	3,348
Liability Hedging Portfolio	1,067	-	-	-	1,067	415
Investment Grade Credit	865	-	-	-	865	199
Other	158	-	-	-	158	172
Property	2,570	-	-	-	2,570	2,256
Cash and Equivalent	2,402	1	52	-	2,455	1,911
Money Purchase AVC Investments	-	-	-	361	361	346
Other Investment Balances	209	12	6	-	226	455
Total Fund 2012	**30,568**	**1,589**	**1,602**	**361**	**34,121**	**-**
Total Fund 2011	**27,282**	**2,823**	**2,034**	**346**	**-**	**32,685**

Note: The table may not sum due to rounding.

The allocation of assets in the above table has been reclassified from the statement of net assets presented in the accounts of USS to reflect the underlying economic exposure of the scheme to each asset class. Where assets are invested by third party managers, the scheme has a preference for investing via segregated accounts. When this is not possible the statement of net assets recognises the investment as being in a pooled investment vehicle. Pooled vehicles are used in the money market, property, investment grade credit and alternative asset portions of the scheme's investments.

Money Purchase AVCs

The board has selected the Prudential to be the scheme's money purchase AVC provider. The Investment Committee reviews the range of funds made available to AVC participants to ensure it offers an appropriate range of investment choices. As reported last year, the Legal & General Ethical Global Equity Index Fund has replaced the Prudential Responsible Investment fund in the range made available for new investment. The committee is comfortable that no other changes to the AVC range of funds are needed at this stage.

Summary of the Investments

We show below the scheme's 20 largest investments as at 31 March 2012 in listed equities and in bonds.

	Value £m	%
Royal Dutch Shell	461.4	1.4
Vodafone Group	380.1	1.1
HSBC	364.6	1.1
BP	301.0	0.9
UK Treasury 0.625% IL 22/03/2040	293.7	0.9
UK Treasury 0.75% IL 22/03/2034	284.4	0.8
Glaxosmithkline	280.0	0.8
British American Tobacco	212.5	0.6
Rio Tinto	202.7	0.6
BHP Billiton	192.1	0.6
UK Treasury 4.25% 07/12/2040	174.2	0.5
BG Group	168.3	0.5
Nestle R	167.6	0.5
UK Treasury 1.25% IL 22/11/2032	167.2	0.5
Imperial Tobacco	167.1	0.5
Apple	153.4	0.5
UK Treasury 1.125% IL 22/11/2037	138.8	0.4
Astrazeneca	132.5	0.4
UK Treasury 4.5% 07/03/2013	129.7	0.4
Anglo American	117.5	0.4

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

Responsible investment


Hayes Park, Middlesex

The scheme continues to strive to integrate environmental, social and governance issues across its asset classes and to be a leader in responsible investment.

The financial crisis has led to a focus on improving corporate governance and a desire on the part of regulators to ensure that institutional investors increase their commitment to stewardship and the active ownership of companies in which they invest. As a result, there have been a considerable number of regulatory and government consultations to which USS has responded over the last year both in the UK and overseas. Our written submissions and meetings with the regulators have covered a range of issues including: listing rules, executive remuneration, EU corporate governance standards, a code of stewardship for investors, corporate reporting, long-term investing, Japanese company law and class actions in the US. USS is of the view that engagement with policy makers is an efficient and effective way to generate change in corporate behaviour across a market by improving standards to protect investors' interests.

The scheme's RI policy applies to all assets, including those managed by external managers. USS believes that pension funds should push for those who invest on our behalf to act as responsible investors.

The RI team works closely with portfolio managers both to engage with companies where there is material environmental, social or governance risk, and to integrate this information into investment decision making and portfolio construction.

The fund has a strong reputation globally on its approach to the management of these issues, and regularly works in collaboration with other international investors to engage with both companies and policy makers.

Awards

The professionalism and achievements on the in-house investment team have been recognised through industry awards. In December 2011, USS received the European Institutional Investor of the Year 2011 award from Funds Europe. Just after the year end, in May 2012, USS received the following awards in the 2012 awards organised by Portfolio Institutional, a trade publication:

- Best Investor in Property
- Best Investor in Alternative Asset Classes
- Highly commended in the category for pension scheme over £1 billion

The aim of these awards is to "honour exemplary and forward-thinking investors in the UK institutional space".

Statement of Investment Principles

Statement of Investment Principles (current version dated March 2010)

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.

31 March 2010

Membership Statistics

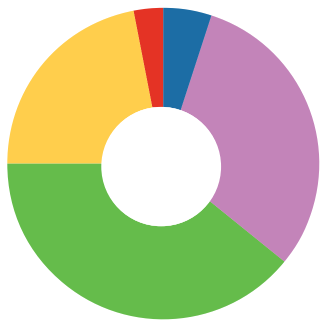
Number of Members

	31/03/2012	31/03/2011	31/03/2010	31/03/2009	31/03/2008
Pensioners	52,910	49,251	46,268	42,935	40,929
Deferred	93,591	88,370	83,201	78,751	76,355
Active	141,093	139,931	137,932	133,353	126,386
Total	**287,594**	**277,552**	**267,401**	**255,039**	**243,670**
Growth on previous year	**+3.62%**	**+3.80%**	**+4.85%**	**+4.67%**	

Age Profiles as at 31 March 2012

Actives		
16 - 30	14,536	10%
31 - 40	45,751	33%
41 - 50	42,760	30%
51 - 55	17,371	12%
55 & over	20,675	15%
Total	**141,093**	

Deferred		
21 - 30	4,535	5%
31 - 40	29,384	31%
41 - 50	36,676	39%
51 - 60	20,300	22%
61 & over	2,696	3%
Total	**93,591**	



Pensioners		
50 & under	155	less than 1%
51 - 60	4,885	9%
61 - 70	26,459	50%
71 - 80	15,254	29%
81 & over	6,157	12%
Total	**52,910**	

Summary of Movements

Details	University Institutions	Non-University Institutions	Totals
Total active members at 31/03/2011 (As previously reported)	134,920	5,011	139,931
Adjustment *	-3,553	-37	-3,590
Total active members at 31/03/2011 (As Restated)	**131,367**	**4,974**	**136,341**
New Members	18,256	857	19,113
Retirements			
- Ill-health	51	1	52
- Other	3,587	136	3,723
Deaths	128	9	137
Leavers and withdrawals			
- Refunds	213	21	234
- Deferred/Undecided	9,528	411	9,939
- Retrospective **	245	31	276
Total active members at 31/03/2012	**135,871**	**5,222**	**141,093**

* This adjustment reflects changes in the opening value arising from late notifications of member events and data corrections, and also revisions to the methodology adopted for the member counts. ** Retrospective withdrawls are members who withdrew from USS within three months of the date of joining the scheme with retrospective effect to the date of commencing employment at a USS institution.

In addition USS Ltd was notified during the year of 3,620 employees who became eligible to join the scheme but elected not to do so.

There are 5,736 active members of the Career Revalued Benefits (CRB) Section.

Pensioner Members	University Institutions	Non-University Institutions	Totals
Total pensioners at 31/03/2011	**47,834**	**1,417**	**49,251**
New Pensioners	4,092	152	4,244
Adjustment *	405	-37	368
Deaths	938	15	953
Total pensioners at 31/03/2012	**51,393**	**1,517**	**52,910**

In addition at 31/03/2012, there were 9,426 pensions being paid to spouses and dependants and 878 annuities being paid to dependent children.

Deferred pensioners not yet receiving a pension totalled	**93,591**

Ex-spouse participants
At 31/03/2012, 549 ex-spouse participants have benefits within the scheme in their own right as a result of pension sharing, of whom 64 are now in receipt of their pension and are included in the pensioner member summary above.

Number of members with multiple appointments as at 31/03/2012	**2,303**

USS Accounts

Fund Account for the year ended 31 March 2012

	Note	2012 £m	2011 £m
Contributions and benefits			
Contributions receivable	3	1,465.8	1,422.1
Premature retirement scheme receipts		13.4	30.1
Transfers in	4	109.9	101.5
		1,589.1	**1,553.7**
Benefits payable	5	1,408.3	1,329.9
Payments on account of leavers	6	30.7	45.7
Administration costs	7	21.5	20.6
		1,460.5	**1,396.2**
Net additions from dealings with members		**128.6**	**157.5**
Returns on investments			
Investment income	8	832.8	749.6
Change in market value of investments	9	541.9	1,719.5
Investment management expenses	10	(48.1)	(44.8)
Net returns on investments		**1,326.6**	**2,424.3**
Net increase in the fund during the year		**1,455.2**	**2,581.8**
Fund at start of year		**32,779.7**	**30,197.9**
Fund at end of year		**34,234.9**	**32,779.7**

The notes on pages 44 to 59 form part of these financial statements.

Statement of net assets as at 31 March 2012

	Note	2012 £m	2011 £m
Investment assets			
Securities	13	21,837.5	22,525.0
Pooled investment vehicles securities	14	6,482.4	5,148.8
Pooled investment vehicles property	14	807.1	756.2
Derivatives	15	204.4	56.3
Property	17	1,763.1	1,504.5
Cash deposits		2,538.0	2,108.9
Money purchase AVC investments		361.2	346.2
Other investment balances	18	449.4	726.9
		34,443.1	**33,172.8**
Investment liabilities			
Derivatives	19	(99.2)	(203.0)
Other investment balances	20	(222.4)	(288.3)
		(321.6)	**(491.3)**
Net investment assets		**34,121.5**	**32,681.5**
Current assets	**21**	**219.6**	**199.1**
Current liabilities	**22**	**(106.2)**	**(100.9)**
Total net assets, representing the fund balance		**34,234.9**	**32,779.7**

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 67 to 72 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 42 to 59 were approved by the trustee, Universities Superannuation Scheme Limited, on 29 August 2012 and were signed on its behalf by:

Sir Martin Harris
Chairman

T H Merchant
Chief Executive

The notes on pages 44 to 59 form part of these financial statements.

Notes to the Financial Statements for the year ended 31 March 2012

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 - Professional Standards (2012). The properties have been valued by an independent external valuer, 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

Swaps are valued at fair value, whch is the current value of future expected net cash flows arising from the swap, taking into account the time value of money.

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

	2012 £m	2011 £m
Main section		
Employers' contributions	950.8	938.4
Employers' salary sacrifice contributions	311.8	269.3
Members' basic contributions	67.6	71.1
Members' additional voluntary contributions	51.3	52.6
	1,381.5	**1,331.4**
Supplementary section		
Supplementary section contributions	22.1	19.8
Money purchase AVCs		
Members' additional voluntary contributions	62.2	70.9
	1,465.8	**1,422.1**

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

	2012 £m	2011 £m
Individual transfers-in	102.9	101.5
Group transfers-in	7.0	-
	109.9	**101.5**

5. Benefits payable

	2012 £m	2011 £m
Main section		
Pensions	1,037.8	948.5
Lump sums on or after retirement	338.0	361.2
Lump sums on death in service	15.5	5.9
	1,391.3	**1,315.6**
Supplementary section		
Pensions	11.7	11.1
Lump sums on or after retirement	1.2	1.4
Lump sums on death in service	2.2	1.1
	15.1	**13.6**
Money purchase AVCs		
Pensions	61.4	61.4
Lump sum death benefits	1.0	0.2
Transferred to USS	(60.5)	(60.9)
	1.9	**0.7**
	1,408.3	**1,329.9**

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

	2012 £m	2011 £m
Individual transfers to other schemes	28.9	43.2
Payments for members joining state scheme	0.6	1.0
Refunds to members leaving service	1.2	1.5
	30.7	**45.7**

7. Administration costs

	2012 £m	2011 £m
Personnel costs	9.4	8.2
Pension Protection Fund levies	4.8	5.6
Premises costs	1.0	0.9
Other costs	6.3	5.9
	21.5	**20.6**

Administration costs are incurred by the trustee company and, in accordance with the trust deed, the costs of managing and administering the scheme, are chargeable to USS. Further details of personnel costs are given in note 11, and of other costs in the financial statements of the trustee company (Universities Superannuation Scheme Limited : Registered No. 1167127).

8. Investment income

	2012 £m	2011 £m
Dividends from UK equities	231.5	236.4
Net property income	94.6	91.4
Income from pooled investment vehicles	59.7	19.8
Dividends from overseas equities	286.4	276.5
Income from UK fixed interest securities	61.9	37.2
Income from overseas fixed interest securities	89.2	75.1
Interest on cash deposits	12.9	15.2
Interest from money purchase AVCs	0.2	0.2
Other income	8.8	11.7
	845.2	**763.5**
Irrecoverable withholding tax	(12.4)	(13.9)
	832.8	**749.6**

9. Change in market value of investments

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

	Market value 2011 £m	Purchases during the year at cost £m	Proceeds of sales during the year £m	Changes in value during the year £m	Market value 2012 £m
Securities	22,525.0	14,837.8	(15,654.4)	129.1	21,837.5
Pooled investment vehicles-securities	5,148.8	2,199.1	(948.6)	83.1	6,482.4
Pooled investment vehicles-property	756.2	29.3	(21.8)	43.4	807.1
Derivatives	(146.7)	41,250.0	(41,259.5)	261.4	105.2
Property	1,504.5	263.4	(2.9)	(1.9)	1,763.1
Money purchase AVC investments	346.2	62.8	(62.7)	14.9	361.2
Cash deposits	2,108.9	417.2	-	11.9	2,538.0
	32,242.9	59,059.6	(57,949.9)	541.9	33,894.5
Other investment balances	438.6	-	-	-	227.0
Total	**32,681.5**	**-**	**-**	**-**	**34,121.5**

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 losses of £133.0m from forward currency contracts, which are used to hedge the currency risk relating to overseas investments (see note 16). 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 £27.8m (2011: £19.1m). 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 costs

	2012 £m	2011 £m
Investment costs		
Securities research costs	9.7	10.0
Securities management		
External manager base fees	4.3	4.7
External manager performance fees	0.1	1.3
Professional fees	0.8	0.5
	14.9	**16.5**
Property management		
External manager fees	1.9	2.0
External manager performance fees	0.3	0.3
Rent review and letting fees	0.6	1.2
Other	-	0.1
	2.8	**3.6**
Legal and professional fees	2.3	2.2
Custodial services	1.3	1.3
	21.3	**23.6**
Other costs		
Personnel costs	16.7	11.9
Premises costs	2.6	2.6
Sundry costs	7.5	6.7
	26.8	**21.2**
	48.1	**44.8**

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

Investment management costs comprise all costs directly attributable to the scheme's investment activities, including the operating costs of the London Investment Office and the costs of management and agency services rendered by third parties.

11. Supplementary information in respect of personnel costs

	2012 £m	2011 £m
Personnel costs		
Included in administration costs	9.4	8.2
Included in investment management costs	16.7	11.9
	26.1	**20.1**
Analysed as:		
Wages, salaries and incentive payments	19.4	14.3
Pension costs	2.8	2.7
Social security costs	1.9	1.4
Other	2.0	1.7
	26.1	**20.1**

Included above are the emoluments of the chief executive comprising salary and benefits amounting to £261,000 (2011: £311,000). As at 31 March 2012 his accrued benefits under the defined benefits scheme were £29,000 (2011: £24,000).

Universities Superannuation Scheme Limited puts in place salary and reward packages which are designed to enable it to recruit and retain suitably qualified and talented individuals. In addition to base salary and benefits package, some staff participate in incentive schemes. The main plans relate to the London Investment Office. There are two main plans in operation, an annual incentive plan and a long term incentive plan (LTIP). Payments under the annual incentive plan are linked to the individual's performance, the performance of their own mandate and the overall investment performance of the scheme. Investments performance is measured against the relevant benchmark over 2 and 5 year timeframes. Included within wages and salaries is £6,208,000 (2011: £3,489,000) in respect of London Investment Office annual incentive plans and associated national insurance contributions. Part of the annual incentive plan is deferred for a period of three years to encourage the retention of key staff.

The LTIP is a five year plan for more senior staff where the payout is dependent upon the rolling outperformance of the relevant benchmark over a five year period. To date no such payments have been made and in accordance with the accounting policy no provision has been made for future payments. All incentive plans are reviewed and approved by the remuneration committee on an annual basis.

Remuneration payable to other higher paid staff, excluding employer's national insurance and employer's pension contributions; but including benefits in kind and accrued amounts in respect of deferred payments under the incentive plan terms during the year was as follows:

	2012	2011
£100,001-£110,000	2	7
£110,001-£120,000	6	4
£120,001-£130,000	4	6
£130,001-£140,000	7	6
£140,001-£150,000	3	3
£150,001-£160,000	5	3
£160,001-£170,000	2	3
£170,001-£180,000	4	1
£180,001-£190,000	0	1
£190,001-£200,000	4	5
£200,001-£210,000	1	1
£210,001-£220,000	1	1
£220,001-£230,000	2	1
£230,001-£240,000	4	0
£240,001-£250,000	0	1
£250,001-£260,000	2	3
£260,001-£270,000	0	1
£270,001-£280,000	2	0
£280,001-£290,000	1	0
£310,001-£320,000	1	0
£320,001-£330,000	1	0
£370,001-£380,000	1	2
£410,001-£420,000	0	1
£810,001-£820,000	1	0

Figures for both 2011 and 2012 include remuneration earned in those years, irrespective of when it may be paid. Previously the table was presented on a "paid" basis. Accordingly, the figures for 2011 have been restated to reflect bonus amounts earned in relation to that calendar year, including bonus deferred under the terms of the incentive plan.

12. 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.

13. Securities

	2012 £m	2011 £m
Quoted		
UK equities	5,784.5	7,153.6
Overseas equities	11,286.9	11,395.6
UK fixed interest - public sector quoted	821.4	701.2
UK index linked - public sector quoted	1,066.6	415.0
UK fixed interest - other	217.5	91.2
Overseas fixed interest - public sector quoted	2,329.0	2,408.3
Overseas index linked - public sector quoted	176.7	257.3
Overseas fixed interest - other	154.9	102.8
	21,837.5	**22,525.0**

14. Pooled investment vehicles

	2012 £m	2011 £m
Securities		
Managed Funds and Limited Partnerships	5,991.5	5,137.7
Unit Trusts	34.9	11.1
Insurance Policies	456.0	-
	6,482.4	**5,148.8**
Property		
Unit Trusts	487.5	491.4
Property companies	21.0	18.2
Limited Partnerships	298.6	246.6
	807.1	**756.2**
	7,289.5	**5,905.0**

15. Derivative contracts (assets)

		2012 £m	2011 £m
Options		-	-
Futures contracts	16(a)	24.9	10.3
Swaps		-	21.2
Forward foreign exchange contracts	16(b)	179.5	24.8
		204.4	**56.3**

16. 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 2012. 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	156.4	0.9	-
Eurobund	244.7	-	(0.7)
Eurostoxx 50	1,701.7	-	(47.7)
FTSE 100	593.6	-	(14.7)
LIFFE Gilt	152.1	0.8	-
HK Hang Seng	47.1	-	(1.1)
JAP Topix	638.1	20.5	-
US S&P 500	44.2	0.4	-
US S&P 500 E-mini	865.1	-	(22.4)
US Bond	196.6	2.3	-
	4,639.6	**24.9**	**(86.6)**

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) 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 314.0	-	205.6	-	(2.5)
Purchase Canadian dollars	CAD 96.9	-	61.4	-	(0.8)
Purchase Swiss Francs	CHF 25.5	-	17.7	-	-
Purchase Euros	EUR 249.6	-	209.4	-	(1.3)
Purchase Japanese Yen	JPY 7,310.7	-	55.7	-	-
Purchase Swedish Krona	SEK 133.4	-	12.6	-	-
Purchase US dollars	USD 262.1	-	163.9	0.1	-
Sell Australian dollars	AUD (1,689.9)	1,122.7	-	31.3	-
Sell Canadian dollars	CAD (428.3)	271.3	-	3.2	-
Sell Swiss Francs	CHF (517.0)	358.0	-	-	(0.5)
Sell Czech Koruna	CZK (1,461.0)	48.9	-	-	(0.1)
Sell Danish Krone	DKK (432.2)	48.7	-	0.2	-
Sell Euros	EUR (4,237.8)	3,541.8	-	7.1	-
Sell Hong Kong dollars	HKD (1,481.2)	120.7	-	1.3	-
Sell Japanese Yen	JPY (172,190.8)	1,533.4	-	32.4	-
Sell Mexican dollars	MXN (1,581.8)	76.7	-	-	(0.5)
Sell Norwegian Krona	NOK (521.0)	56.7	-	-	(0.4)
Sell New Zealand Dollars	NZD (8.3)	4.3	-	-	-
Sell Swedish Krona	SEK (2,063.6)	194.4	-	-	(0.1)
Sell Singapore dollars	SGD (130.9)	65.4	-	0.2	-
Sell US dollars	USD (9,486.4)	6,029.7	-	90.1	-
Sell South African Rand	ZAR (720.1)	57.3	-	-	(1.1)
		13,530.0	**726.3**	**165.9**	**(7.3)**

Forward contract to:	Currency bought millions	Currency sold millions	Asset £m	Liability £m
Sell Australian dollars for Euros	EUR 90.0	AUD 112.5	2.2	-
Sell Australian dollars for US dollars	USD 414.3	AUD 399.1	1.1	-
Sell Swiss Francs for Euros	EUR 64.5	CHF 78.0	-	(0.3)
Sell Swiss Francs for US dollars	USD 160.0	CHF 151.0	-	(4.5)
Sell Euros for US dollars	USD 166.5	EUR 125.6	-	(0.5)
Sell Japanese Yen for US dollars	USD 288.0	JPY 22,644.9	8.0	-
Sell US dollars for South Korean Won	KRW 262,066.5	USD 229.5	0.9	-
Sell US dollars for Taiwan dollars	TWD 4,727.1	USD 158.0	1.4	-
			13.6	**(5.3)**
			179.5	**(12.6)**

Forward currency contracts are used primarily to partially hedge the currency risk relating to overseas investments. This aims to achieve a better match between the fund's assets and the base currency of its future liabilities. Forward currency contracts are also used to help manage the composition of the scheme's currency exposure through time.

17. Property

	2012 £m	2011 £m
UK completed properties	1,703.6	1,496.7
UK developments in progress	59.5	7.8
	1,763.1	**1,504.5**
Properties analysed by type: Freehold	1,428.6	1,215.9
Leasehold	334.5	288.6
	1,763.1	**1,504.5**

The completed properties and developments in progress have been valued on the basis of market value as at 31 March 2012 and 31 March 2011 for accounts purposes by CB Richard Ellis Ltd acting as independent valuers. The valuations have been undertaken in accordance with the RICS Valuation - Professional Standards (2012).

18. Other investment balances (assets)

	2012 £m	2011 £m
Amount due from stockbrokers	59.6	435.8
Dividends and accrued interest	133.3	135.9
Margin balances	256.5	155.2
	449.4	**726.9**

19. Derivative contracts (liabilities)

		2012 £m	2011 £m
Options		-	-
Futures contracts	16(a)	(86.6)	(28.9)
Swaps		-	-
Forward foreign exchange contracts	16(b)	(12.6)	(174.1)
		(99.2)	**(203.0)**

20. Other investment balances (liabilities)

	2012 £m	2011 £m
Amount due to stockbrokers	(189.9)	(269.5)
Margin balances	(32.5)	(18.8)
	(222.4)	**(288.3)**

21. Current assets

	2012 £m	2011 £m
Contributions due from institutions:		
- employers' contributions	77.9	84.3
- members' basic contributions	34.1	29.5
- members' additional voluntary contributions	3.6	4.1
Other debtors	67.6	72.9
Cash at bank and in hand	36.4	8.3
	219.6	**199.1**

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

22. Current liabilities

	2012 £m	2011 £m
Rents & service charges received in advance	(28.5)	(26.3)
Amount due on property purchases	(2.0)	(1.9)
Benefits payable	(46.1)	(40.9)
Taxation creditor	(4.2)	(3.3)
Other creditors	(14.8)	(19.7)
Due to trustee company	(10.6)	(8.8)
	(106.2)	**(100.9)**

23. Securities in 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.

	2012 £m	2011 £m
Value of stock on loan at 31 March	2,504.9	579.3
Value of collateral held at 31 March	2,662.0	611.6

24. Financial commitments

	2012 £m	2011 £m
Property		
Contracts placed but not provided for	70.7	54.6
Pooled investment vehicles - securities		
Outstanding commitments to private equity partnerships	2,333.6	2,937.3

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

25. Self investment

The scheme had no employer related investments during the year.

26. 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 £21.5 million and £48.1 million respectively (2011: £20.6 million and £44.8 million), with a balance due from the scheme of £10.6 million as at 31 March 2012 (2011: £8.6 million). 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 6 September 2012.

Sir 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 2012

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 2011 to 31 March 2012 under the schedule of contributions certified by the actuary 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

Employer	**£m**
Normal contributions	1,237.7
Salary sacrifice contributions	-
Special contributions	0.3
Additional contributions	38.0
Member	
Normal contributions	89.6
Additional contributions	0.1
Contributions payable under the schedule (as reported on by the scheme auditor)	**1,365.7**

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	1,365.7
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)	113.5
Total contributions (including premature retirement scheme receipts) reported in the financial statements	**1,479.2**

Signed on behalf of the trustee on 6 September 2012.

Martin Harris
Chairman

T H Merchant
Chief Executive

Independent Auditors' Report to the trustee of Universities Superannuation Scheme

We have audited the financial statements of Universities Superannuation Scheme for the year ended 31 March 2012 set out on pages 42 to 59. 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 60, 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 2012 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.

Stephen Dunn (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
St James' Square
Manchester
M2 6DS

6 September 2012

Independent Auditors' Statement about Contributions to the trustee of Universities Superannuation Scheme

We have examined the summary of contributions to the Universities Superannuation Scheme in respect of the scheme year ended 31 March 2012 which is set out on page 61.

Respective responsibilities of trustee and auditors

As explained more fully in the Statement of Trustee's Responsibilities set out on page 61, 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 reasonable 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 2012 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.

Stephen Dunn (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
St James' Square
Manchester
M2 6DS

6 September 2012

Five Year Summary - Fund Accounts for years ended 31 March (restated)

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Contributions and benefits					
Contributions	1,466	1,422	1,339	1,190	1,070
PRS receipts	13	30	24	16	20
Transfers in	110	102	156	151	131
	1,589	**1,554**	**1,519**	**1,357**	**1,221**
Benefits payable					
Pensions	1,050	960	903	822	758
Lump sums	357	370	306	239	209
Transfers out	30	44	66	39	34
Refunds	1	2	2	3	3
	1,438	**1,376**	**1,277**	**1,103**	**1,004**
Investment income (net of investment management costs)	**784**	**705**	**733**	**838**	**926**
Administration costs of the trustee (excluding investment management costs)	16.7	15.0	12.5	12.4	10.1
Pension Protection Fund levies	4.8	5.6	4.4	3.9	4.2
	21.5	**20.6**	**16.9**	**16.3**	**14.3**
Changes in value of investments	**542**	**1,720**	**7,547**	**(8,479)**	**(2,389)**
Investments of the fund (at current values) at 31 March					
Securities	21,838	22,525	22,429	16,864	25,080
Pooled investment vehicles	7,290	5,905	3,810	2,548	1,879
Derivatives	105	(147)	(13)	(478)	(337)
Property	1,763	1,506	1,320	674	878
Money purchase AVC investments	361	346	324	286	256
Cash deposits	2,538	2,109	2,142	1,491	1,120
Other investment balances	227	439	119	239	154
	34,122	**32,683**	**30,131**	**21,624**	**29,030**

Membership numbers at 31 March	**2012**	**2011**	**2010**	**2009**	**2008**
Contributing members	141,100	139,900	137,900	133,400	126,400
Pensioners	63,200	59,200	55,900	52,000	49,900
Deferred pensioners	93,600	88,400	83,200	78,700	76,400
	297,900	**287,500**	**277,000**	**264,100**	**252,700**

The figure for pensioners includes pensions paid to spouses and dependants and annuities paid to dependent children.

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.

The notes on pages 44 to 59 form part of these financial statements.

Summary Funding Statement

Summary Funding Statement as at 31 March 2012

The USS Summary Funding Statement is issued to all scheme members and beneficiaries with information on the financial position of USS updated to 31 March 2012.

The trustee board has recently completed the scheme's valuation, which takes place every three years, and the results are explained in this statement. This latest triennial valuation took place as at 31 March 2011, when the funding level of the scheme on its technical provisions basis was 92%.

By March 2012, the funding position had deteriorated to 77% due to a 24% increase in the liabilities, which had not been matched by a 4.4% increase in the assets. The liabilities of the scheme, that is the present value of the benefit payments to be made in the future, is calculated by 'discounting' the future payments by a factor based on the yield on long-dated UK government bonds (gilts). When gilt yields rise, the discounted value of the liabilities of the scheme reduces. However, the gilt yield is currently at an historically low level because of the current economic climate and the Bank of England's policy of buying gilts, known as 'quantitative easing'.

Whilst members and beneficiaries can take comfort from the fact that their benefits are secure in the UK's second largest pension scheme, backed by a substantial covenant, these are undoubtedly challenging times for pension schemes generally.

USS is a long-term scheme and the trustee board has a long time horizon over which funding can be planned, given the status and longevity of the scheme's sponsoring employers. USS provides secure benefits to almost 300,000 active, deferred and pensioner members, and the trustee board will continue to manage the scheme diligently and, where necessary, to revise scheme funding in conjunction with the scheme's sponsoring employers and other stakeholders to ensure that it continues to meet its commitments both now and in the future.

This statement contains a number of key questions and answers which I trust you will find helpful. A copy of the complete 'Scheme Funding Report' is available on the USS website. (www.uss.co.uk)

T H Merchant
Chief Executive
Universities Superannuation Scheme Limited

How does USS work?

USS delivers a defined set of benefits 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, which are paid into the USS fund. Together with the investment returns achieved on the fund's assets, these cover the payment of benefits to scheme members or to their dependants, as well as operating costs for the scheme.

How is the financial position of the scheme measured?

The current financial position is determined by comparing the value of the assets of the fund with an estimate of the current value of the scheme's liabilities, which are the total of all benefits that members have accrued to date and which are to be paid in the future.

Whilst the current value of the scheme's assets is relatively easy to determine, there are always uncertainties inherent in estimating the current value of the accrued liabilities, for example for what duration a pension might be paid, what level of survivor's benefits might be paid, what rate of return will be received on investments in the future etc. This last factor is used to determine the assets that would be required today to enable the scheme to meet the projected future benefits already accrued by scheme members.

The starting point for determining the assumed rate of return on investments is the yield on UK government bonds, or gilts. This is known as the risk-free rate and a margin is added to this to reflect the trustee board's expectations of future returns given the asset mix in the scheme.

The gilt yield is currently at an historically low level because of the current economic climate which results in a higher than otherwise value of the scheme's liabilities. Looking over the longer term, a gilt yield averaged over, say, the last twenty years would result in a much improved funding position.

The scheme actuary carries out a full valuation of the scheme every three years. This compares the value of the scheme's assets to its liabilities using two approaches, the technical provisions basis and the buy-out basis, as required by statutory regulations. The technical provisions basis requires the trustee board to adopt a prudent set of assumptions and it is this basis that is used to determine the funding level and, where appropriate, the extent of any deficit or surplus. The buy-out basis assumes that all of the liabilities of the scheme are to be secured through an insurance company, which would as you might expect be a very expensive way to provide 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 doing so.

In calculating the value of the scheme's liabilities on any basis, the trustee board must make a number of assumptions about the financial and demographic factors that have an effect. These assumptions, which are explained in greater detail in the Scheme Funding Report, are critical to the valuation process and a great deal of care is taken in deciding upon them. For calculating the value on the technical provisions basis, one of the most important factors is the estimate of future returns from the fund's investments. In calculating the funding on the technical provisions basis, the scheme actuary has assumed that the long-term investment returns for the fund overall, will be 1.7% per annum above the return that could be achieved on UK government bonds.

Regardless of the basis adopted, the financial position of the scheme is measured by the funding ratio, which shows what proportion of the scheme's future liabilities , in respect of past service, are covered by the scheme's assets.

What was the position at the last actuarial valuation?

The latest full valuation, as at 31 March 2011, indicated that the funding level was 92% on the technical provisions basis. The assets of the scheme fell short of the total amount required to meet all liabilities, by £2.9 billion.

Funding position as at 31 March 2011, technical provisions basis

Assets	£32.4 billion
Liabilities	£35.3 billion
Deficit	£2.9 billion
Funding level	92%

The funding level on the buy-out basis was 57%.

What has happened since the last statement?

Since the last statement, a number of changes to the benefits provided by the scheme came into force from 1 October 2011. These changes, which will help control the cost of future benefits, but do not affect the liabilities already accrued, include:

- The scheme benefits for new entrants, other than in specific, limited circumstances, are now provided on a Career Revalued Benefits basis rather than a Final Salary basis. This change has created two sections of the scheme, the Final Salary section (generally for those who joined the scheme before 1 October 2011) and the Career Revalued Benefits section for new entrants after 1 October 2011.
- The Normal Pension Age was increased for the future service of existing members and new entrants, to age 65. This is likely to increase further in the future in line with increases in state pension age.
- A flexible retirement option was introduced.
- Member contributions increased to 7.5% of salary for Final Salary section members and were set at 6.5% of salary for Career Revalued Benefits section members.
- Cost sharing was introduced so that, in the event that the total contribution level exceeds 23.5% of salary, changes to future benefits may be agreed by the JNC or, failing that, the employers will pay contributions to fund 65% of the additional cost and members would pay a 35% share.
- Increases to pensions in payment or in deferment have been capped for service after 30 September 2011. USS will match increases in 'official pensions' ie the pensions payable to members of the public service pension schemes, for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

What is the position of the scheme as at 31 March 2012?

The funding level of the scheme on its technical provisions basis has fallen significantly due to a large increase, 23.8%, in the liabilities, which has not been matched by the 4.4% increase in the assets over the year. The increase in liabilities has primarily been brought about by the historically low yield on gilts resulting from the current economic climate and the Bank of England's policy of buying gilts, which is also known as 'quantitative easing'. This fall in the discount rate means that the present value of future liabilities has increased. It does not mean that the future cashflows are significantly different from those predicted at the last valuation.

Funding position as at 31 March 2012, technical provisions basis

Assets	£33.9 billion
Liabilities	£43.7 billion
Deficit	£9.8 billion
Funding level	77%

The funding level on the buy-out basis was 50%.

The buy-out basis is just one of the alternative bases upon which scheme liabilities can be measured, and historically, the trustee board has used an additional benchmark, the Gilts basis, for measuring the financial position of USS compared to the technical provisions basis.

If, instead of assuming a 1.7% per annum return above gilts, we apply a tougher benchmark (a basis that the trustee board has used previously), and assume that we will achieve investment returns equivalent to the whole of the fund being invested in gilts, the funding position had moved from 68% as at the triennial valuation to 56% as at 31 March 2012.

What is the trustee board's funding plan?

The scheme's investment strategy can lead to short-term volatility, but USS is a long-term investor and is able to look ahead 15 or 20 years, because of the financial standing of the sponsoring employers, the strength of their commitment to the scheme, and the scheme's positive cash flow.

To correct the shortfall in the funding level at the date of the valuation, the trustee board has determined, after consulting the employers, a plan to eliminate the shortfall of £2.9 billion over a period of ten years. There are two components to this deficit recovery plan; the payment of additional contributions and the assumption that the scheme's investments will deliver a return 0.51% per annum greater than the assumption made in the triennial valuation. The first component will involve the employers making payments in the first six years of the recovery plan period at 16% of salaries, which is 3.4% above the cost of accrual determined in the valuation. For the remaining four years the employers will make payments at 2% of salaries in excess of the (then) estimated future cost of accruals.

The trustee board is aware of the need to take all possible steps to maximise the return on the scheme's investments for a given level of risk. The global economic factors, which continue to cause volatility in investment markets, and the response of the UK government to the current situation, which is keeping the yield on gilts very low, are affecting all forms of investment and are not matters which the trustee board can directly influence. However, USS has a broad portfolio of investments and has continued to diversify further, including investment grade bonds, emerging market debt and further investments in infrastructure. This strategy is designed to manage the volatility and risk associated with the funding level. The trustee board believes this is the most appropriate response to these extraordinary conditions and will continue to monitor the situation and adjust the strategy as necessary.

USS can meet all its current pension commitments because the fund continues to have a positive cash flow, in that the fund receives substantially more in contributions and income from investments in a year than it pays out in benefits, which leaves it in a better position to weather these difficult conditions relative to many other schemes in the UK.

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 all 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 the vast majority (if not all of) employers in the higher education sector were to become insolvent. Clearly, this is a remote possibility.

However, if such circumstances were ever to occur, the pension you would receive from the PPF might be less than the full benefit you had earned in the scheme, depending on your age, when your benefits were 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 you 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 set out below. If you would like a copy of any of these documents please refer to the USS website (www.uss.co.uk) or contact USS's Liverpool office. If you require advice about any choice you have to make in relation to USS you should consult a professional adviser.

Additional documents available on the USS website or 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 ensuring that the funding objectives are met and was published as part of the Scheme Funding Report dated 15 June 2012.

USS Invesment Beliefs and Guiding Principles
These outline how USS addresses investment and risk management for the scheme.

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 2012
This shows the scheme's income and expenditure in 2011/12 and the net assets at the year end.

Scheme Funding Report as at 31 March 2011
This contains the details of the actuary's calculation of the scheme's financial position as at 31 March 2011.

Guide for USS members
This is the members' handbook for the scheme. Members should have been given a copy when they joined the scheme, but any member can get a further copy from their employer.

Certificate of Technical Provisions

ACTUARIAL VALUATION AS AT 31 MARCH 2011
SCHEME FUNDING REPORT

UNIVERSITIES SUPERANNUATION SCHEME

APPENDIX E

Certificate of technical provisions

Name of the 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 2011 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 dated ~~15~~ June 2012.

Signature	Edwin Topper
Name	Edwin Topper
Date of signing	15 June 2012
Name of employer	Mercer Limited
Address	Belvedere 12 Booth Street Manchester M2 4 AW
Qualification	Fellow of the Institute and Faculty of Actuaries

MERCER

USS Ltd Accounts

Report of the Directors for the year ended 31 March 2012

The directors submit their report and the financial statements for the year ended 31 March 2012.

Principal Activity

Universities Superannuation Scheme Limited (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 or the scheme).

Business Review

The board submits its business review on the progress of the company for the year ended 31 March 2012. The format of the report has been changed this year in order to improve the flow of information.

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 £69,628,000 (2011: £65,410,000), representing an overall increase of 6.4 % compared to the prior year, this amount being recoverable from USS. Membership of USS has continued to grow steadily and during the past twelve months has increased from 277,552 to 287,594, an increase of 3.6%.

The year ended 31 March 2012 was an extremely busy year for the trustee company. In addition to the day to day administration of the scheme and management of the investments, the company completed a series of initiatives, whilst proactively managing costs. A summary of operating costs and initiatives are detailed below.

Operating Costs

A summary of operating costs for the year is as follows:

	2012 £000	2011 £000	Variance £000	Variance %
Personnel costs	26,186	20,152	6,034	30
Premises costs	3,590	3,505	85	2
Investment costs	21,412	23,608	(2,196)	(9)
Other costs	18,440	18,145	295	2
	69,628	**65,410**	**4,218**	**6**

The largest increase in operating costs relates to personnel costs. This is due to a number of factors. Overall headcount has increased by 10%, primarily due to the expansion of the skill set within the investment team, and associated control functions, of the London investment operation. In addition extra resource was required to manage the increased administration workload generated by the scheme's growing membership and in order to implement scheme changes and other key projects. Relative performance of the internally managed fund improved in 2011 triggering larger awards for London Investment Office staff under the company's incentive plan. However, the 2007 Long Term Incentive Plan (LTIP) award, which is based on longer term cumulative fund performance has lapsed and was not paid during the year. The likelihood of the payout from other LTIPs remains low based on fund performance to date.

The increase in personnel costs has been offset to some degree by cost savings generated from reduced securities research costs, the lower levels of external manager utilisation and the reduction of external manager performance fees. Cost reductions have also been realised in rent review and letting fees on the property portfolio due to the timing of such reviews. Direct and indirect costs are also incurred as a consequence of operating within a regulatory environment.

Scheme Changes

The initial phase of scheme changes was successfully completed on 1 October 2011. Following this implementation other functionality was developed which focused on flexible retirement and early leaver processes for members of the career revalued benefit section. Work is ongoing to further enhance systems and processes.

USSonline

The rollout of USSonline continued during the year to institutions and is now approaching completion. Over 356 Institutions have registered and approximately 800 institutional administrators are using the system. As at 31 March 2012 over 114,000 member searches had been carried out using USSonline, with approximately 30,000 eforms submitted and 20,000 calculations having been carried out. The IT department's technical service desk continues to support the institutional administrators dealing with approximately 1,000 calls per month.

Pension Legislation

Work has been completed on a number of strategic issues for the scheme, including scheme mergers, covenant assessment, flexible retirement for multiple appointment members, auto-enrolment and the HMRC's information requirements for annual allowance. In addition, there has been substantial activity in the area of employer debt and in relation to the actuarial valuation.

USS Investment Management Limited (USSIM):

Considerable effort has been made to design, create and implement robust and appropriate systems in anticipation of USS Investment Management Limited, a wholly owned subsidiary of Universities Superannuation Scheme Limited, beginning its operations in 2012. USSIM will enhance the overall governance of USS and will be regulated by the FSA. The trustee company will continue to be regulated by the Pensions Regulator.

Committed to Excellence (C2E)

The British Quality Foundation (BQF) is Europe's largest corporate membership organisation dedicated to performance improvement. During the year, the decision was taken to cease the company's accreditation to ISO 9002 as from 31 March 2012 and instead work towards the British Quality Foundation's Committed to Excellence (C2E) award. This award is internationally recognised for its structured approach to improvement activities. C2E projects are now well under way and assessment for C2E accreditation is anticipated during the summer of 2012.

Going Concern

In performing their going concern assessment the directors have reviewed the principal risks and uncertainties facing the company. These mainly relate to operational and regulatory risk, as the company's fundamental objective and purpose is to manage the day to day administration of the scheme. These are not considered to be of a magnitude which cast significant doubt on the company's ability to continue as a going concern and accordingly the financial statements have been prepared on a going concern basis.

Directors

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

Sir Martin Harris (chairman)	Steve Egan (Resigned with effect 29 March 2012)
Professor John Bull (deputy chairman)	David Guppy
Professor Dame Glynis Breakwell	Virginia Holmes
Michael Butcher	Howard Jacobs
Joseph Devlin	David McDonnell
Professor David Eastwood	Bill Trythall

All directors benefited from qualifying third party indemnity provisions in place during the financial year.

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.

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 10 to the financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements 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 financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements 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 financial statements, 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 financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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 financial statements 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.

By order of the board

I M Sherlock
Company Secretary *19 July 2012*

Statement of operating costs for the year ended 31 March 2012

	Note	2012 £000	2011 £000
Personnel costs			
Employees' emoluments	4	24,442	18,418
Directors' emoluments and expenses	5	615	541
Recruitment, training and welfare		1,129	1,193
		26,186	**20,152**
Premises costs			
Rent, rates, service charges and utilities		2,916	2,753
Depreciation and maintenance		674	752
		3,590	**3,505**
Investment costs			
Securities research costs		9,841	10,003
Securities management		5,174	6,515
Property management		2,778	3,639
Custodial services		1,279	1,293
Legal costs - property management		899	817
- other		1,031	928
Property valuation		202	231
Investment performance measurement		208	182
		21,412	**23,608**
Other costs			
Computer and information services costs	6	6,257	5,649
Pension Protection Fund Levy	7	4,804	5,571
Professional fees	8	4,259	3,975
Travel and car costs		1,278	1,120
Office equipment		524	563
Institution liaison and member communication		459	408
Telephones and postage		292	252
Printing and stationery		222	231
Insurances		146	129
FSA fees		90	98
Auditors' remuneration	9	75	65
Sundry expenditure		64	111
Profit on disposal of fixed assets		(30)	(27)
		18,440	**18,145**
Total operating costs		**69,628**	**65,410**

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 81 to 91 form part of these financial statements.

Balance sheet as at 31 March 2012

Company registration number: 1167127

	Note	2012 £000	2011 £000
Assets			
Fixed assets			
Tangible fixed assets	10	3,264	4,154
Current assets			
Debtors	11	13,003	10,562
Cash at bank and in hand		7	6
		13,010	**10,568**
Total assets		**16,274**	**14,722**
Liabilities			
Creditors - amounts falling due within one year	12	15,125	14,124
Creditors - amounts due after more than one year	13	1,149	598
Total liabilities		**16,274**	**14,722**

The notes on pages 81 to 91 form part of these financial statement.

The financial statements on pages 78 to 80 were approved by the board of directors on 19 July 2012 and were signed on its behalf by:

Sir Martin Harris
Chairman

John Bull
Deputy Chairman

Cash flow statement for the year ended 31 March 2012

	Note	2012 £000	2011 £000
Operating activities			
Cash received from USS		67,892	62,569
Operating costs paid	14	(67,246)	(61,719)
Net cash inflow from operating activities		**646**	**850**
Capital Expenditure			
Purchase of tangible fixed assets		(695)	(946)
Sale of tangible fixed assets		50	93
		(645)	(853)
(Decrease)/Increase in cash		**1**	**(3)**

The notes on pages 81 to 91 form part of these financial statement.

Notes to the accounts for the year ended 31 March 2012

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 financial statements 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.

3. Accounting policies

Basis of preparation

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

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 financial statements. 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.

Accounting convention

The financial statements 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 defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the 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.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value at an appropriate rate if the effect of the time value of money is deemed material.

A contingent liability is not recognised but is disclosed where the existence of the obligation will only be confirmed by future events or where it is not probable that an outflow of resources will be required to settle the obligation or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised but are disclosed where an inflow of economic benefits is probable.

VAT

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. The unrecovered VAT element is written back against operating expenses, apportioned by standard rated expenditure.

4. Employees' emoluments

	2012	**2011**
The average weekly number of persons employed by the company during the year (excluding directors) was	284	259

	£000	**£000**
Staff costs for the above persons were:		
Wages and salaries	19,384	14,325
Pension costs	2,812	2,689
Social security costs	1,910	1,385
Restructuring costs	336	19
	24,442	**18,418**

5. Directors' emoluments and expenses

		2012 £000	2011 £000
Fees		491	455
Employer's costs	- national insurance contributions	55	48
	- VAT	3	3
Expenses		66	35
		615	**541**

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.

Directors' fees charged during the year were as follows:

	2012 £000	2011 £000
Virginia Holmes	75	75
Sir Martin Harris (chairman)	67	67
Howard Jacobs	67	60
Professor John Bull (deputy chairman)	57	57
David McDonnell	34	23
Michael G Butcher	33	36
Bill Trythall	29	29
Joseph Devlin	29	24
David Guppy	29	23
Professor Dame Glynis Breakwell	29	19
Professor David Eastwood	22	22
Steve Egan	20	20
	491	**455**

The comparative figures have been updated from £459,000 on a cash basis to £455,000 on an accruals basis.

The directors' fees and expenses include £21,000 paid to third parties in respect of their services (2011: £21,000).

6. Computer and information services costs

	2012 £000	2011 £000
Investment information services	3,422	3,021
Computer running costs	1,472	1,271
Software depreciation	543	665
Investment accounting services	504	377
Hardware depreciation	255	262
Computer bureau fees	61	53
	6,257	**5,649**

7. Pension protection fund

	2012 £000	2011 £000
Scheme-based and risk based levies	4,101	4,905
Administration levy	357	341
General levy	277	264
Fund levy	69	61
	4,804	**5,571**

8. Professional fees

	2012 £000	2011 £000
Actuarial	1,277	746
Consultancy	1,365	768
Legal	856	857
Committee members (other than directors)	243	174
Scheme changes	217	737
Public relations	129	126
Member matters	62	86
Surrender of Bishopgate lease	-	237
Advisory fees for the Joint Review Group	-	165
Other	110	79
	4,259	**3,975**

9. Auditors' remuneration

	2012 £000	2011 £000
USS	70	60
Universities Superannuation Scheme Limited	5	5
	75	**65**

Remuneration of the company's auditors (KPMG LLP) for provision of services other than for the audit of USS financial statements and the audit of these financial statements was:

	2012 £000	2011 £000
Other services relating to taxation	54	6
Services relating to information technology	60	-
Internal audit services	-	25
All other services	6	-
	120	**31**

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 (2011: £23,000).

10. 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 2011	4,573	1,544	4,789	2,674	372	13,952
Additions	53	186	310	34	112	695
Disposals	-	-	(2)	-	(120)	(122)
At 31 March 2012	**4,626**	**1,730**	**5,097**	**2,708**	**364**	**14,525**
Accumulated depreciation						
At 1 April 2011	2,712	1,136	4,011	1,801	138	9,798
Charge for year	499	255	544	180	87	1,565
Disposals	-	-	(2)	-	(100)	(102)
At 31 March 2012	**3,211**	**1,391**	**4,553**	**1,981**	**125**	**11,261**
Net book Value						
At 31 March 2012	**1,415**	**339**	**544**	**727**	**239**	**3,264**
Net book Value						
At 31 March 2011	**1,861**	**408**	**778**	**873**	**234**	**4,154**

11. Debtors

	2012 £000	2011 £000
Due from USS	10,570	8,834
Prepayments	2,368	1,640
Other debtors	65	88
	13,003	**10,562**

12. Creditors - amounts falling due within one year

	2012 £000	2011 £000
Accrued expenditure	7,229	7,265
Other creditors	4,679	4,703
Taxation and social security	3,217	2,156
	15,125	**14,124**

13. Creditors - amounts due after more than one year

This exclusively relates to the portion of the annual incentive plan for certain London Investment Office staff where an element of the award is deferred for a period of three years if the total award earned exceeds a certain threshold.

14. Reconciliation of operating costs paid

	2012 £000	2011 £000
Operating costs - recoverable from USS	69,628	65,410
Increase in creditors	(1,552)	(2,160)
Profit on sale of tangible fixed assets	30	27
Depreciation	(1,565)	(1,681)
Increase in debtors (excluding USS)	705	123
Operating costs paid	**67,246**	**61,719**

15. Operating lease commitments

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

	2012 £000	2011 £000
Less than one year	4	9
Between two and five years	36	32
Over five years	1,499	1,499

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

16. Contingent liability

A long term incentive plan (LTIP) for investment staff was introduced from 1 January 2007 to ensure that a significant portion of the rewards available to key members of staff is tied to the long-term performance of the fund, with the objective of promoting a balance between long-term and short-term objectives. The LTIP operates as a series of individual five-year plans (although this period may be reduced for staff who retire). From 1 January 2012 the LTIP outperformance benchmarks were separated between the alternative investment team and other eligible staff. This is to ensure that the performance benchmarks for the alternative investment team are set appropriately relative to their investment mandates.

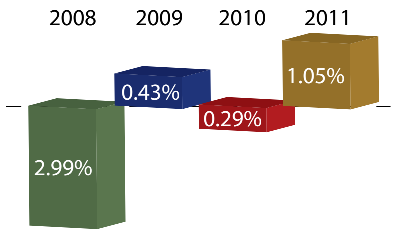
A summary of the plans currently in place is set out below:

Year commencing	Team	Outperformance target	Maximum payable £000
1 January 2008	All eligible staff	0.6% p.a. before expenses	825
1 January 2009	All eligible staff	0.6% p.a. before expenses	450
1 January 2010	All eligible staff	0.2% p.a. after expenses	1,110
1 January 2011	All eligible staff	0.2% p.a. after expenses	1,450
1 January 2012	Alternative investments	Alternative investment benchmarks	880
	Other eligible staff	0.2% p.a. after expenses	1,525

Payments under each plan are triggered once the outperformance target has been achieved. For plans starting 1 January 2010 onwards, 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. As approved by the Remuneration Committee, the maximum amount payable under the plan in respect of the year commencing 1 January 2012 is £2,405,000. The maximum amounts payable stated above exclude national insurance contributions, which will be a further cost.

Internally managed performance statistics for current plans are as follows:

Year ended	Fund performance
31 December 2008	Underperformance 2.99%
31 December 2009	Outperformance 0.43%
31 December 2010	Underperformance 0.29%
31 December 2011	Outperformance 1.05%



It is currently considered that the likelihood that payments will be made from these plans is low. This is because the target set for outperformance for pre-2010 plans will be difficult to achieve and for more recent plans, including the alternative investment team's plan, there is a large degree of uncertainty around what performance will be achieved in future years. No provision has therefore been made in the accounts, although this will be reviewed annually in the light of actual performance.

17. Pension costs

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

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; 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.

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the 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 2012 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 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and 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 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter.

Standard mortality tables were used as follows:

Male members' mortality	S1NA ["light"] YoB tables – No age rating
Female members' mortality	S1NA ["light"] YoB tables – rated down 1 year

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 CMI 2009 projections with a 1.25% pa long term rate were also adopted. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

At the valuation date, the value of the assets of the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 million. The assets therefore were sufficient to cover 92% 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 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the scheme was 93% funded; on a buy-out basis (ie assuming the scheme had discontinued on the valuation date) the assets would have been approximately 57% 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 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial actuarial valuation is as at 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

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 but 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.

As at the valuation date the scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of Salaries.

Following UK government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation.

Since the previous valuation as at 31 March 2008 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011.

New Entrants
Other than in specific, limited circumstances, new entrants are now provided on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.

Normal pension age
The Normal pension age was increased for future service and new entrants, to age 65.

Flexible Retirement
Flexible retirement options were introduced and were subject to employer consent.

Member contributions increased
Contributions were uplifted to 7.5% p.a. and 6.5% p.a. for FS Section members and CRB Section members respectively.

Cost sharing
If the total contribution level exceeds 23.5% of Salaries per annum, the employers will pay 65% of the excess over 23.5% and members would pay the remaining 35% to the fund as additional contributions.

Pension increase cap
For service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

Since 31 March 2011 global investment markets have continued to fluctuate and following its peak in September 2011 inflation has declined rapidly towards the year end, although the market's assessment of inflation has remained reasonably constant. The actuary has estimated that the funding level as at 31 March 2012 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are sighted as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2012 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.9% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2012 was 74%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 56%.

Surpluses or deficits which arise at future valuations may impact on the company'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 shortfall
Investment return	Decrease by 0.25%	Increase by £1.6 billion
The gap between RPI and CPI	Decrease by 0.25%	Increase by £1 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Members live longer than assumed	1 year longer	Increase by £0.8 billion
Equity markets in isolation	Fall by 25%	Increase by £4.6 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 trustees believe 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 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 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.

At 31 March 2012, USS had over 141,000 active members and the company had 248 active members participating in the scheme.

The total pension cost for the company was £2,812,000 (2011: £2,689,000). The contribution rate payable by the company was 16% of pensionable salaries (within the meaning of the scheme rules).

18. 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 £21.5 million and £48.1 million respectively, with a balance due from USS of £10.6 million as at 31 March 2012.

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 2012 set out on pages 78 to 80. 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 2012 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.

Stephen Dunn (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
St James' Square
Manchester
M2 6DS

19 July 2012

Committee Reports

Audit Committee

Purpose

The committee was established by the board in March 1982 to consider and report to the board on the adequacy of systems of internal and financial control, risk management, corporate governance and financial reporting.

It examines management's processes and arrangements for ensuring an effective and appropriate control environment that complies with the standards and requirements of relevant regulatory systems.

All committee responsibilities are detailed in their terms of reference available at www.uss.co.uk.

Membership

The committee's members are appointed by the board and comprise at least three board directors and at least one committee member with recent and relevant financial experience. Membership at 31 March 2012 is detailed below:

- Mr Michael Butcher (chairman)
- Professor John Bull
- Mr Joseph Devlin
- Mr David McDonnell

Mr Steve Egan retired on 29 March 2012. We thank Mr Egan for his valuable contribution as a committee member.

Mr Gordon Coull was appointed as a committee member on 1 April 2012.

The biographical details for each member, including qualifications can be found on page 8 and 9.

Committee performance

The table below provides key data on committee performance during the year:

No. of meetings*	5
Attendance	92%
No. of items received and considered	112

*the committee met individually with the external auditor, the internal auditor and the compliance officer on one occasion each during the year without members of the executive being present.

Key activities in 2011/12

The committee carried out the following activities in the discharge of its responsibilities during the year:

- 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;
- Oversaw the development of an anti-bribery and corruption policy and procedure and made appropriate recommendations to the board for approval;
- Monitored activities arising from the 2010/2011 National Fraud Initiative; and
- Recruited a new head of internal audit on the departure of the former head to a big four accounting firm.

Finance and Policy Committee

Purpose

The committee was established by the board to consider and make recommendations on strategic planning and policy development, performance against strategic and business plans, financial performance against estimates, communication with stakeholders and any other major issues requiring detailed consideration on behalf of the board.

All committee responsibilities are detailed in their terms of reference available at www.uss.co.uk.

Membership

The committee's members are appointed by the board and comprise both board members and executives. Membership at 31 March 2012 is detailed below:

- Professor John Bull (chairman)
- Mr Joseph Devlin
- Professor David Eastwood
- Mrs Virginia Holmes
- Mr Howard Jacobs
- Mr Bill Trythall
- Chief executive
- Chief financial officer
- Chief investment officer
- Pensions policy manager

Committee performance

The table below provides key data on committee performance during the year:

No. of meetings	4
Attendance	88%
No. of items received and considered	102

Key activities in 2011/12

The committee has considered and made decisions or recommendations to the board as appropriate on the following key matters during the year:

- Operational performance against the objectives of the 2011/12 strategic and business plan;
- Financial performance against budgets and forecasts for 2011/12;
- Strategic and business plans for 2012/13;
- Triennial actuarial valuation;
- Issues of scheme policy and administration including scheme mergers, exclusivity, employer debt and employer covenant;
- Arrangements for health and safety, business continuity and company insurances;
- Communication with and levels and quality of service provided to member institutions and individual members;
- Benchmarking of pensions administration function; and
- Non-investment risk management.

Investment Committee

Purpose

The committee was established by the board to advise the trustee company on all questions relating to the investment of the assets of the fund.

All committee responsibilities are detailed in their terms of reference available at www.uss.co.uk.

Membership

The committee's members are appointed by the board and comprise both board members and special members. An investment specialist also attends the meetings. Membership at 31 March 2012 is detailed below:

- Virginia Holmes (chairman)
- Professor John Bull
- Sir Martin Harris
- Professor Dame Glynis Breakwell
- Mr David Guppy
- Mr David McDonnell
- Mr Graham Allen (special member)
- Mrs Angela Docherty (special member)
- Mr Andrew Gulliford (special member)

Committee performance

The table below provides key data on committee performance during the year:

No. of meetings	5
Attendance	93%
No. of items received and considered	101

Key activities in 2011/12

The committee has considered and made decisions or recommendations to the board as appropriate on the following key matters during the year:

- Strategic asset allocation (SAA)
- Tactical asset allocation (TAA) mandate
- Asset liability modelling /risk framework
- De-risking

Nominations and Governance Committee

Purpose

The committee was established by the trustee board to consider and make recommendations on the recruitment, induction and training of board and committee members to ensure that there is the appropriate balance of skills, experience and knowledge to effectively discharge board and committee responsibilities.

All committee responsibilities are detailed in their terms of reference available at www.uss.co.uk.

Membership

The committee's members are appointed by the board and comprise the chairman of the trustee company, a UCU director, a UUK director, the chief executive and an independent director. Membership at 31 March 2012 was:

- Professor John Bull (chairman)
- Sir Martin Harris
- Professor David Eastwood
- Mr David Guppy
- Mr Tom Merchant

Committee performance

The table below provides key data on committee performance during the year:

No. of meetings	2
Attendance	100%
No. of items received and considered	21

Key activities in 2011/12

The committee has considered and made recommendations where necessary on the following key matters during the year:

- Recruitment processes and criteria for directors and committee members;
- Induction processes for new directors and committee members;
- Skill requirements for board and committees;
- Training and development schedules for directors;
- Succession planning for board and committee members;
- Regulatory and statutory issues relating to board effectiveness.

Remuneration Committee

Purpose

The committee was established by the trustee board to consider and make recommendations on the policy and practice for the recruitment, motivation and retention of trustee company staff (with the exception of the chief executive and chief investment officer, whose salaries are determined at board level).

All committee responsibilities are detailed in their terms of reference available at www.uss.co.uk.

Membership

The committee's members are appointed by and from the board and membership at 31 March 2012 comprised five members:

• Mr Howard Jacobs (chairman)

• Mr Michael Butcher

• Professor Dame Glynis Breakwell

• Mr David McDonnell

• Mr Joseph Devlin

Committee performance

The table below provides key data on committee performance during the year:

No. of meetings	6
Attendance	97%
No. of items received and considered	44

Key activities in 2011/12

The committee has considered and made recommendations where necessary on the following key matters during the year:

• Total compensation and benefits for employees;

• Bonus scheme and long-term incentive plans for investment staff;

• Key performance indicators relating to human resources;

• Regulatory and statutory issues relating to employment and remuneration;

• Succession planning; and

• Employment and remuneration policy and practice.

Rules Committee

Purpose

The committee was established by the trustee company board (board) under article 45 of the Articles of Association to manage the rule amendment process on behalf of the board and advise the board on proposed rule amendments.

All committee responsibilities are detailed in their terms of reference available at www.uss.co.uk.

Membership

The committee's members are appointed by the board and membership at 31 March 2012 comprised three members:

- Mr Howard Jacobs (chairman)
- Mr Bill Trythall (UCU nominated member)
- Mr Denis Linfoot (UUK nominated member)

Committee performance

The table below provides key data on committee performance during the year:

No. of meetings	6
Attendance	100%
No. of items received and considered	41

Key activities in 2011/12

The committee has considered and made recommendations where necessary on the following key matters during the year:

- 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.
- 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.
- The new statutory employer obligations and auto-enrolment requirements which will came into force on a staged basis from 2012.

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. Cliff Vidgeon fulfilled 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 twenty-one cases which required detailed consideration by the advisory committee during the year.

Sixteen cases related to members requesting full commutation of their benefits on the grounds of serious incapacity and in each case the full commutation was granted.

Five cases were considered at stage two of the internal dispute resolution procedure. One case related to a dispute about the rules of the scheme not allowing for an enhanced benefit for members with no spouse/dependant, three cases related to the government changing increases provided to "official pensions" from rises in the Retail Prices Index to rises in the Consumer Prices Index, and one case was in respect of a transfer of benefits into the scheme. In all five cases, the officers' decision at stage 1 of the internal disputes resolution procedure was upheld.

In addition to making adjudications on these individual cases the committee considered and made recommendations in respect of a number of other areas of the scheme including: full commutation, financial advice, an analysis of past internal dispute resolution cases, and wording used in scheme literature and on the USS website. The committee also reviewed the work the trustee company has undertaken, and is scheduled to undertake relating to data quality.

Signed on behalf of the advisory committee

C Vidgeon
Chairman

Joint Negotiating Committee

Purpose

The JNC is established under the rules of the scheme, and its powers are derived from those rules and from the articles of association of the trustee company.

The committee's purpose is to decide on changes to the scheme rules, to consider the application of the cost-sharing arrangements in the event they are activated, and to consider and decide on specific governance issues as set out in the rules.

Membership

The JNC is a body comprising five representatives of Universities UK (UUK) and five representatives of the University and College Union (UCU), together with an independent committee member who acts as chairman. Membership at 31 March 2012 was:

Sir Andrew Cubie	Independent member and chairman
Dr Susan Blackwell	UCU
Mr Alan Carr	UCU
Ms Geraldine Egan	UCU
Dr Marion Hersh	UCU
Dr Angela Roger	UCU
Dr Tony Bruce	UUK
Mr Phil Harding	UUK
Mr Denis Linfoot	UUK
Dr Jonathan Nicholls	UUK
Mr Cliff Vidgeon	UUK

Committee performance

The table below provides key data on committee performance during the year:

No. of meetings	5
Attendance	98%
No. of items received and considered	31

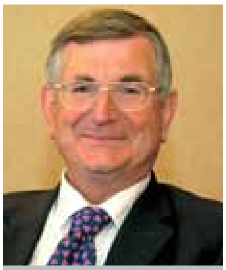
Key activities in 2011/12

The committee has considered and made decisions where appropriate on the following key matters during the year:

- In May 2011 the committee considered the proposed final form of the fifth deed of amendment which would introduce the scheme changes as they had been recommended to the board in July 2010. The deed of amendment was decided upon through the exercise of the independent chairman's vote. The resulting changes were implemented from 1 October 2011.
- Over the course of the year the committee considered options which could be made available to members to help them manage the impact of changes made by government to the system of pension taxation. Three options were decided upon at the January 2012 meeting of the committee, namely (i) enhanced opting-out, (ii) temporary cessation of accrual and (iii) deferral of past service benefits with a salary cap for future service. The rule amendments were executed in the sixth deed of amendment. The amendments were agreed by a vote from which UCU abstained.

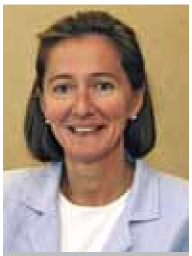
- The committee considered issues relating to the new pensions obligations for employers, which will require certain workers to be auto-enrolled into a qualifying pension scheme. USS will meet the required scheme standard in order for employers to satisfy their duty to auto-enrol certain workers or where appropriate permit such workers to join a scheme on request. However discussions are continuing in relation to those employees who are not able to become members of USS, for example because they are already a USS pensioner (but for whom the employers will, under the new statutory requirements, have a duty to provide a pension scheme). The committee will consider rule amendments relating to auto-enrolment in the.
- A sub-group of the committee was established, named the Funding and Benefits Working Group, to explore options, without prejudice, for future changes to the scheme within the context of the scheme's sustainability. The group first met on 18 November 2011 and developed a programme of work which will be progressed over the course of 2012.
- A further sub-group of the committee was established to consider flexible retirement for what are referred to as 'multiple appointment members'. This group's brief is to design and develop a flexible retirement solution for members with more than one pensionable employment under USS, and the first meeting of the group was held in December 2011. Further meetings are scheduled for the coming year.
- Finally, the committee agreed rule amendments which increased the maximum number of members on the USS investment committee from 9 to 10. The amendments were executed in the fourth deed of amendment.

Sir Andrew Cubie
Chairman



Sir Martin Harris
Chairman

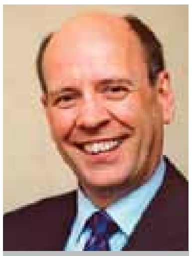
Chairmen of principal sub-committees



Virginia Holmes
Investment Committee

Professor John Bull
Finance & Policy Committee

Nominations and Governance Committee

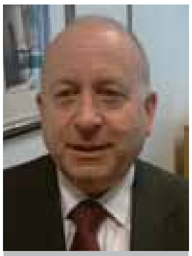


Michael Butcher
Audit Committee

Howard Jacobs
Remuneration Committee

Rules Committee

Sir Andrew Cubie
Joint Negotiating Committee



Cliff Vidgeon
Advisory Committee

Principal Officers

Back row: Steve Grady, Head of IT, Howard Brindle, Chief Operating Officer (Investments), Roger Gray, Chief Investment Officer, Tom Merchant, Chief Executive, Colin Busby, Communications Manager, Ian Sherlock, Company Secretary

Seated: David Webster, Chief Financial Officer, Bernadine Steventon, Pensions Operations Manager, Brendan Mulkern, Pensions Policy Manager

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