USS

UNIVERSITIES SUPERANNUATION SCHEME

Report & Accounts

for the year ended 31 March 2014

Universities Superannuation Scheme Ltd is the corporate trustee of one of the largest private sector pension funds in the UK with assets at 31 March 2014 of circa £42 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 registered number of the trustee company (Universities Superannuation Scheme Ltd) at Companies House is 01167127

The reference number of the scheme (Universities Superannuation Scheme) at the Pensions Registry Office is 10020100

USS

Trustee Company

Chairman's introduction

Sir Martin Harris
Chairman

When we reported the funding position at this point last year we were factoring in some of the lowest yields on UK Government bonds or 'gilts' ever experienced. Whilst the UK, and indeed more generally the global economy, has recovered a little from that low point, the general outlook for 2014 is for moderate growth and there are uncertainties as to when, and indeed if, we will experience a return to pre-crisis levels. This year, the scheme's funding position continues to be affected by the impact of the low interest rate environment.

The outlook for pension schemes therefore remains challenging, particularly for those providing defined benefits like USS. The changing financial landscape, reduced optimism about future investment returns and increasing longevity all mean that providing a guaranteed income in retirement is more expensive than ever. This is clearly reflected in the changes Government is making to the State Pension age.

In these challenging times the trustee board's priority is to continue to deliver sustainable pension arrangements for the Higher Education (HE) sector for the long term. In 2011, at the last formal valuation of the scheme, we reported a deficit of £2.9 billion and subsequently implemented a 10 year recovery plan. At the same time changes were put in place to improve the long-term sustainability of the scheme including the introduction of a new Career Revalued Benefits (CRB) section. The CRB section now accounts for almost one third of our total active membership and continues to grow.

More recently the funding position has been adversely affected by market conditions and in 2013 we reported a deficit of £11.5 billion. This year we anticipate that, once the formal valuation is complete, we shall continue to report a substantial deficit. This continuing deficit and the volatility which exists within the scheme funding position mean that there are some difficult decisions to make in the coming year.

The trustee company continues to work closely with member and employer representatives to develop an appropriate response to these funding issues. This has involved some detailed work in preparation for the valuation including a thorough examination of the employer covenant - that is the ability of the employers to continue to support the scheme. This comprised of field visits to a number of institutions, engagement with the Higher Education Funding Councils (HEFCs) and stress testing the results with institution finance directors and sector representatives. The board now has a more granular understanding of the financial health of the sector and the ability of sponsoring employers to support the scheme.

This assessment of the employer covenant has supported the ongoing work the trustee has undertaken to update the integrated approach to scheme funding. This approach brings together the trustee's assessment of the employer covenant, the fund's investment strategy and the actuarial assumptions made to estimate the amount required to pay the pensions promised. By making the links between these different elements more explicit the trustee board hopes to encourage greater understanding of the interplay between them and provide an overview of the amount of risk carried within the scheme. Taking an integrated approach to scheme funding is also in line with the Pensions Regulator's guidelines for best practice.

Understanding the strength of the sponsoring employers and ensuring the different elements of pension funding remain in balance is part of the normal business of being a trustee and we shall continue to approach this, and all scheme management matters, with the care and diligence these important issues deserve.

The trustee board continues to be responsible for setting the strategic business objectives for the company as well as effective governance and oversight of the scheme. In August 2013, we appointed a new Group Chief Executive Officer, Bill Galvin, who has previously held positions at both the Pensions Regulator and the Department for Work and Pensions. Bill's role is to lead the executive team as it implements the board's strategic objectives and delivers the agreed business plan through the day to day running of the company. A revised governance and committee structure has been put in place to support this work and a new group executive committee has been formed bringing together the executive functions for investment and scheme management.

Unlike many defined benefit pension schemes USS remains open to new members and membership of the scheme has increased steadily for many years. In the past 12 months we have welcomed an increased number of new members, largely as a result of new legislation which requires employers to enrol staff in a qualifying workplace pension scheme. This policy came into force for our largest employers on 1 March 2013 and so far more than 170 institutions, representing 94% of members have been through the process. In the year to 31 March 2014 we have experienced a 4% increase in membership with some 31,000 new members joining the scheme compared with 17,000 members over the same period last year. This means the Career Revalued Benefits section of the scheme, which began in October 2011, now has 49,000 members. The majority of USS's participating institutions are required to complete the auto-enrolment process by 1 October 2015, although the full roll out will not be completed until 1 February 2018, so we shall continue to see the impact (albeit diminishing) of this new legislation on membership numbers for some time.

We remain committed to ensuring that the trustee company delivers a good quality pension service. To this end we have continued to invest in scheme administration and investment capabilities to support both the development of these services and to enable the company to respond to recent legislative changes. Some of the new requirements to which we have responded include developing automated support for auto-enrolment processes, updated payroll systems to meet new requirements to report real-time payroll data to HMRC, and administrative support to respond to revisions to pension tax arrangements and the production of pension savings statements. Many of these changes have also placed greater demands on institutions and we shall continue to work with them to update and improve our service. We want to provide a service which is valued by institutions and members alike and we shall continue to make the necessary investment in our own people and systems so that we continue to be the pension service of choice for the HE sector.

The fund's assets continue to increase; this year reaching circa £42 billion. At the end of 2013 the fund reported an underperformance against its strategic asset allocation benchmark of 0.3% but this was largely due to a mismatch between the timing of the asset valuation and the benchmarks against which they are measured. The updated valuation as at 31 March 2014 showed an outperformance of 1.2%. The scale of the scheme is vast – every month the scheme pays circa £100 million in pensions to over 69,000 retired members and their dependants. The investment management function typically carries out 60 cash transactions a day – with the daily cash movements alone totalling up to £1 billion.

The trustee board is committed to maintaining an in-house team to implement the board's investment strategy and to manage a large proportion of the scheme's assets. It is both cost effective and efficient to have an in-house team to manage a fund of this scale. We know this is the case because the trustee company submits the investment management operating costs for independent comparison with the operating costs of pension schemes of a similar size and asset mix and consistently records lower than average costs.

Efficiency savings are just one of the advantages of in-house investment management for a large fund like USS. This approach also enables the investment management function to make direct investments in particular asset classes, such as infrastructure. In the year to March 2014 we have made a number of high profile long-term investments in infrastructure assets such as Heathrow Airport Holdings and NATS, the UK's National Air Traffic Service. USS finds this asset class attractive as it can provide inflation-linked steady cash flows over a long time horizon which match USS's long-term liabilities. These investments have been funded in part by the reduced allocation to equities as the scheme continues to make progress in diversifying its strategic asset allocation. We have also, following consultation with the sector, introduced a liability-hedging programme with the aim of reducing the scheme's exposure to interest rate and inflation risk and we continue to use our influence to promote responsible investment practices. Looking ahead, the long-term investment strategy will be further developed incorporating feedback from the sector on its risk and return appetite.

There have been some changes to the trustee board in the year to 31 March 2014. Professor John Bull has retired from his position as deputy chairman of the board and chairman of the finance and policy committee. Dr Kevin Carter is now senior independent director and will fulfil the role of deputy chairman. Virginia Holmes has stepped down from her position as an independent director on the trustee board to take on the role of chairman of the board for our subsidiary investment management company, USS Investment Management Ltd. Michael Butcher, another of our independent directors, retired from the board and we wish him well in his future endeavours.

These vacancies have been filled and we are pleased to welcome three new independent directors to the trustee board : Ian Maybury joined us on 1 November 2013; Michael Merton joined us on 1 February 2014 and Kirsten English joined the board on 1 May 2014.

It is with great sadness that I report Roy Gillson's death, following a battle with Non-Hodgkin's Lymphoma. Roy served as the first chairman of our then newly formed subsidiary company, USS Investment Management Ltd. With his rare combination of commitment, common sense and charm, Roy was a great pleasure to work with.

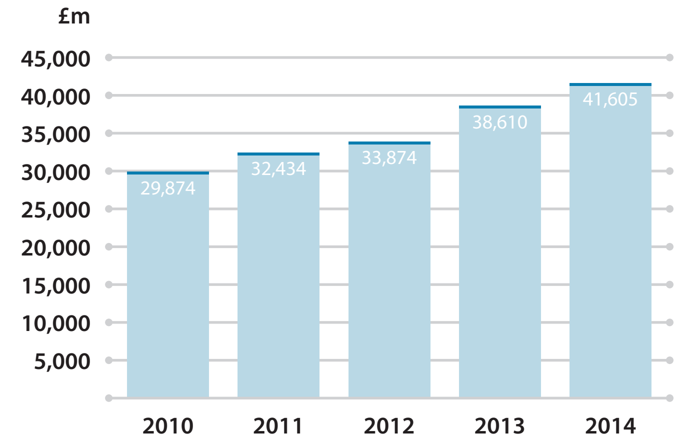
Looking forward, over the coming 12 months we shall be continuing the engagement with employer and member representatives to develop an appropriate response to the current funding level. There are a number of regulatory changes which will require ongoing administrative attention including: The implications of the referendum on an independent Scotland, which at the time of going to press is still some weeks away; the continued roll-out of auto-enrolment; the end of contracting-out - which will add to the National Insurance contributions of both employers and employees; new accounting standards affecting higher education and related institutions; and a revised pension directive from Europe which will have implications for both disclosure and governance requirements. We shall also continue to engage with UK and European legislators on emerging matters, notably but not exclusively, on the continued interest in EU wide solvency requirements.

Ultimately our role is to ensure the fund can continue to pay the pension benefits promised and to deliver a quality pension service to institutions and members. This will remain our focus as we continue to navigate economic and regulatory change throughout 2014 and beyond.

Sir Martin Harris
Chairman

Summary of year

Fund

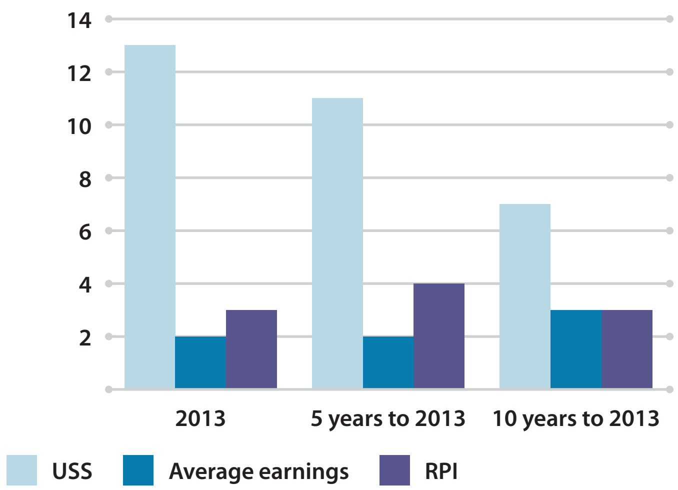


The fund's investments have risen to £41.6 billion (excluding AVCs) as at 31 March 2014 from £38.6 billion in 2013. More details are given in the investment report on page 27.

Membership

As in previous years, the membership of the scheme has continued to grow. As at 31 March 2014 the total number of members was 316,440 representing an increase of 4.41% from the previous year. Over the last five years the total number of members has increased by 18.3%. The career-revalued benefits scheme (CRB) section of the scheme, which opened in October 2011 to new eligible members, has also seen a steady growth. At the year end, the number of members in the CRB section of the scheme amounted to 49,104. More details are given in the membership statistics on page 46.

Performance



Strong investment performance has been achieved since the adverse market conditions experienced in 2008. The returns over 1, 5 and 10 year periods are all above both average earnings and RPI.

Board Members

Sir Martin Harris, Chairman

Martin Harris (70) was formerly a President of Clare Hall Cambridge and has been a director of Universities Superannuation Scheme Ltd since 1 April 1991, deputy chairman from 1 July 2004 and chairman from 1 April 2006. He was Vice-Chancellor of the University of Manchester from 1992 to 2004 and Vice-Chancellor of the University of Essex from 1987 to 1992. He was Chancellor of the University of Salford from 2004 to 2009. He served as chairman of the Committee of Vice-Chancellors and Principals (now UUK) from 1997 to 1999. He was Director of the Office of Fair Access from 2004 until 2012.

Professor Dame Glynis Breakwell

Glynis Breakwell (62) was appointed Vice-Chancellor of the University of Bath in 2001 having been previously Pro-Vice-Chancellor (Research) and Head of the School of Human Sciences at the University of Surrey.

She took her PhD in Psychology from the University of Bristol and DSc from the University of Oxford. She is a Fellow of the British Psychological Society, a chartered health psychologist and a Fellow of the Academy of Social Sciences. She is a director of the Student Loans Company, a Council Member and Chair of the Research Committee of the Economic & Social Research Council and Director of the West of England Local Enterprise Partnership.

Dr Kevin Carter

Kevin Carter (61) is chairman of Murray International Trust Plc and a non-executive director of Lowland Investment Company Plc. He is a trustee director of the BBC Pension Trust Ltd and chairman of its investment committee and a Director of the Centrica Combined Common Investment Fund. He is also Chairman of Hermes GPW LLP, a private markets asset manager.

He was Chief Executive of Old Mutual Asset Managers (UK) Ltd from 1987 to 2000 and Chief Executive of Old Mutual Asset Managers (US) LLC from 2000 to 2001. He then became a senior investment consultant and ultimately European Head of Investment Practice at Watson Wyatt. Subsequently he joined JP Morgan in London as a Managing Director and Head of the EMEA Pension Advisory Group.

Joseph Devlin

Joe Devlin (54) 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.

Professor Sir David Eastwood

David Eastwood (55) 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 to 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. He currently chairs the Russell Group of leading universities.

Kirsten English

Kirsten English (53) holds non-executive directorships at eFront, Contis Group, and Birdstep Technology. She currently works as a consultant to Private Equity firms focusing on financial technology acquisitions and operational improvement in portfolio companies. She has previously held a variety of positions including Director at Terra Firma Capital Partners, CEO (Alternative Investments) at Grenfell PAI (Punter Southall Group), and Entrepreneur in Residence at Warburg Pincus. She also has 16 years experience with Reuters where she served as CEO for the Norwegian and Icelandic divisions and Internal Communications Director. Kirsten was co-founder and General Manager at Radianz, which sold to BT in 2005. Kirsten is a graduate of St Anne's College, Oxford and the Wharton Business School Executive Program and speaks fluent Norwegian. Kirsten joined the trustee board on 1 May 2014.

Ian Maybury

Ian Maybury (51) joined Schroders in 2012 as the Head of Solution Management and has previously worked for Redington, Citigroup and Royal London Insurance in various actuarial and management roles. An experienced executive with particular expertise in investment and risk management, he has also occupied a number of key trustee positions throughout his career. He took on a DC Committee role for the Unilever UK Pension Scheme in March 2013, in addition to becoming a trustee for Royal National Institute for Blind People in October 2013. He has a keen interest in the governance of DB and DC pension schemes as well as financial services and pension regulations. He has held trustee roles at both Royal London and Citi and continues to sit on the Citi Trustee Board.

David McDonnell CBE DL

David McDonnell (71) 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.

Michael Merton

Michael Merton (63) is a chartered accountant and member of the Association of Corporate Treasurers. He had a long career at Rio Tinto where he held a number of senior financial and operational roles in various locations around the world and was a member of the company's executive committee. He is now senior independent director of Cape Plc, where he chairs the audit committee and is a director of BlackRock Commodities Income Investment Trust Plc. He is also chairman of the J Sainsbury Pension Scheme and its investment committee, a trustee of the Rio Tinto Pension Scheme and a trustee of the HALO Trust which is a leading charity devoted to the removal of land mines.

Rene Poisson

Rene Poisson (57) became a director of USS in November 2012 having retired after a 30 year career with JP Morgan latterly as Managing Director and Senior Credit Officer for EMEA. He is currently chair of the JP Morgan UK Pension Plan and its investment sub-committee, a senior adviser to NM Rothschild & Sons Ltd and a patron of the Disability Challengers Charity.

Dr Angela Roger

Dr Angela Roger (59) was appointed in September 2012. She is a Senior Lecturer in Education at the University of Dundee. Her teaching and research interests include coaching new and experienced staff in higher education, and promoting effective and attuned communication for a range of professions. She is a member of UCU's National Executive Committee, Honorary Treasurer of UCU and formerly a President of AUT Scotland and AUT. She is a former Chair of USS's Advisory Committee on which she served for eight years; and was a member of the Joint Negotiating Committee for seven years. She is also Chair of the Board of Trustees of the Teachers' Support Network, the educational charity incorporating Recourse which supports staff in further and higher education.

Bill Trythall

Bill Trythall (69) 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 on the Joint Negotiating Committee, and many years as an AUT director of the trustee company up to 2005. He sits on the committee of the Association of Member Nominated Trustees and on a panel of pension scheme trustees advising DWP. He is a former national President of AUT and was subsequently a trustee of the union and of its staff pension fund. He was first appointed Pensioner Director in October 2009 and reappointed in 2013.

Principal officers & advisers

The principal officers and advisers of the trustee company as at 1 August 2014 are:

Group Chief Executive Officer
Bill Galvin

Chief Investment Officer
Roger Gray

Chief Financial & Resource Officer
David Webster

Chief Policy & External Affairs Officer
Brendan Mulkern

Chief Service Delivery Officer
Kevin Smith

Group General Counsel
Jeremy Hill

Chief Technology & Change Officer
Howard Brindle

Actuary
Ali Tayyebi of Mercer,
Birmingham
B1 2LQ

Solicitors
DLA Piper UK LLP,
Liverpool
L2 ONH

Independent Auditors
Grant Thornton UK LLP,
Manchester
M3 3EB

Bankers
Barclays Bank Plc,
Manchester
M2 1HW

Membership of Committees

Board Appointed by Universities UK (UUK)

Appointed by Universities UK (UUK)
Sir Martin Harris (Chairman), Professor Dame Glynis Breakwell, Professor Sir David Eastwood, D McDonnell
Appointed by the University and College Union (UCU)
J Devlin, Dr A Roger, J W D Trythall
Independent
Dr K Carter, M R Poisson, I Maybury, M Merton

Policy Committee

Appointed by the board
Professor Sir David Eastwood (Chairman), J Devlin, M R Poisson, J W D Trythall, Dr K Carter

Rules function of the Policy Committee

Appointed by the board
B Mulkern (Chairman), J W D Trythall, C Vidgeon

Investment Committee

Appointed by the board
Dr K Carter (Chairman), Professor Dame Glynis Breakwell, A Docherty, Sir Martin Harris, D McDonnell, V Holmes, I Maybury, S Bates, Dr A Roger

Audit Committee

Appointed by the board
M Merton (Chairman), G Coull, J Devlin, D McDonnell

Remuneration Committee

Appointed by the board
M R Poisson (Chairman), D McDonnell, Professor Dame Glynis Breakwell, J Devlin

Advisory Committee

Appointed by the UUK
Dr A Bruce, D Linfoot, C Vidgeon
Appointed by the UCU
P Collins (Chairman)
J Goode
Dr M Hersh

Joint Negotiating Committee

Independent Chairman
Sir Andrew Cubie
Appointed by UUK
Dr A Bruce, P Harding, M Ace, W Spinks, C Vidgeon
Appointed by UCU
Dr J Donaghey, J Gluza, G Egan, Dr M Hersh, G Watson

Board report

Board report

Key Highlights for the year ended 31 March 2014

- The trustee company engaged with the scheme's stakeholders throughout the year on scheme funding matters and the preparatory work for the 2014 triennial valuation. At the time of writing, work to complete the 2014 triennial valuation and update the trustee's approach to scheme funding is well underway.
- A thorough employer covenant exercise has been carried out and confirmed the scheme is backed by robust employers, with a significant covenant horizon of some 20 years.
- The Career Revalued Benefits (CRB) section of the scheme had over 49,000 members at the year end, accounting for almost one third of the active membership and continues to grow.
- 179 institutions had, by the financial year's end, auto-enrolled eligible staff into the scheme and we have experienced an 82% increase in new joiners on the previous year. Around 197 institutions were then still to auto-enrol eligible staff, most institutions will complete auto-enrolment before 1 October 2015 with full roll-out completed by February 2018.
- Overall fund assets increased by 8% to circa £42 billion. (31 March 2013: £39 billion)
- USS has made some major direct investments in key infrastructure projects including Heathrow Airport and NATS, the UK's air traffic control service.
- Operating costs, which are made up of administration and investment management costs, over the year increased by 15% to £83.4 million compared with £72.7 million in 2013. This is mainly as a result of increased headcount, additional external fund manager appointments, and costs related to the triennial valuation.

Review of the year and future developments

USS continues to grow in terms of both membership and asset value. In the year to 31 March 2014 the scheme's assets reached circa £42 billion under management and total membership reached a new peak of over 316,000. The CRB section now accounts for almost one third of our active membership, and continues to grow. Increasing member numbers are, in part, as a result of new legislation which requires employers to automatically enrol all relevant employees in a qualifying workplace pension. As the scheme grows and develops we shall continue to deliver a high quality service to our members and institutions. The trustee board has agreed the business plan for 2014/15 and continues to believe that the in-house team is best placed to deliver an effective pension service. Looking ahead to the coming year we shall therefore continue to invest in our people and capabilities, ensuring that we have the right skills, processes and technologies in place to provide a quality pension and investment management service.

The in-house investment management team has secured a number of high profile assets in the previous 12 months notably in UK infrastructure, which is an attractive investment class for the scheme because it has the potential to deliver inflation-linked steady cash flows over a long time horizon which match USS's long-term liabilities. The investment outlook for 2014 is moderate growth and the investment team continue to make progress in diversifying the scheme's asset mix. Reported investment performance for year to 31 March 2014 was above benchmarks by 1.2% after reporting an underperformance at the end of 2013 which was largely due to a time delay in asset valuation data.

The trustee remains dedicated to delivering pensions services which meet the sector's needs. In order to do this the trustee is proactively seeking the views of institutions to ensure the service continues to develop in line with the sector's future requirements and this is an area of increasing focus in the coming year. The regulatory environment continues to change at a considerable pace; this year we have supported a significant number of institutions through the auto-enrolment process and have developed the ability to submit real time payroll data to HM Revenue & Customs to meet new legislative requirements.

Governance & committee structures

A number of changes have been made to committee structures to support the board as it increasingly focuses on scheme strategy and policy frameworks, whilst allowing the executive to focus on implementation and delivery. The functions of the Finance and Policy Committee have been reviewed and its strategic funding-related activities are now undertaken by the trustee board, with scheme policy and structural issues forming the core remit of a new Policy Committee and with other financial responsibilities being assumed by the new Group Executive Committee under the leadership of the new Group Chief Executive Officer. The Rules Committee has also been reviewed and its specialist activities will now be incorporated into a new Rules Group which will report to the Policy Committee. In addition changes have been implemented to the Governance and Nominations Committee. The new Group Executive Committee has assumed responsibility for all executive functions. The new committees came into operation on 1 April 2014.

Auto enrolment

The trustee has provided ongoing support to institutions as they respond to new legislation which requires all employers to automatically enrol relevant employees into a workplace pension. The date upon which an institution is required to meet these obligations is referred to as its 'staging date' and it varies according to the number of people the institution employs. The staging date for the largest participating institutions was 1 March 2013 and, whilst the majority of USS participating institutions will have completed the auto-enrolment process by October 2015, the full roll-out will not be completed until 1 February 2018.

Last year amendments were made to the scheme rules in order to assist participating institutions in meeting these legal obligations. This involved changing USS rules that previously prevented certain groups of now eligible employees from becoming members of the scheme. The rule amendments mean that with effect from its staging date, an institution has been able to enrol into USS:

(i) re-employed pensioners and flexible retirees who take up an additional and separate employment;

(ii) employees employed in a post that was previously excluded from USS entitlement. This has assisted institutions which have a duty to automatically enrol, and in future, automatically re-enrol and/or comply with an opt-in request in respect of such employees.

A number of second order changes were also made to ensure that no provision of the USS rules prevents an eligible employee from automatically becoming a member of the scheme. These second order changes took effect from 1 March 2013 for all institutions, regardless of their individual staging date.

In addition the trustee delivered a webinar and issued a number of communications in the form of both i-letters and updates made available through USSonline to assist institutions to meet these new legal obligations. These updates are intended to provide useful advice and support as institutions approach their staging date so that the auto-enrolment process can be completed smoothly.

USSonline

USSonline is the main portal through which institutions complete administration and interact with the trustee company in relation to member events and caseload. The functionality within USSonline continues to evolve and a number of enhancements have been made based on legislative and scheme change requirements as well as following users' feedback. USSonline provides a number of self service and automated options for institutions, for example the ability to generate data reports detailing current active members and year-end data reconciliation.

Throughout the year we have made specific changes to USSonline to improve the way that users can provide feedback on the service. We have also responded to the increasing demands and volumes placed upon the service by instigating some specific infrastructure improvements, implemented in spring 2014, enhancing overall stability and responsiveness. We will continue to update and improve the infrastructure which supports USSonline given its increasing importance in delivering caseload and related administration.

Regulatory environment

There have been a number of regulatory and legislative developments in the reporting year as well as the recent HM Treasury consultation 'Freedom & Choice in Pensions' and the forthcoming referendum on an independent Scotland. The trustee dedicates significant time and resource to engaging with regulators and policy makers on issues which have a potential material impact on the scheme. When implementing new regulations we aim to do so with as little disruption as possible to members and institutions and where possible have produced briefing materials to assist institutions with any new legal requirements they need to meet in relation to the scheme.

Referendum on an independent Scotland

The trustee company has been considering the implications for USS of a majority vote for independence in the forthcoming referendum. At the time of publication the referendum has yet to take place; we shall continue to monitor developments as we approach the date of the referendum, 18 September 2014, and shall be ready to respond as required whatever the outcome may be.

The board is committed to safeguarding members' accrued rights and, should the occasion arise, will work with scheme stakeholders to maintain the best possible prospect for USS members (whether located in Scotland or not) to continue to enjoy good workplace pension provision in any new constitutional circumstances.

IORP Directive II

In March 2014 the European Commission published a revised pensions directive (formally known as the Institutions for Occupational Retirement Provision (IORP) directive) which will now be considered by the European Parliament.

The revised directive proposes new detailed governance requirements for risk management and internal audit as well as for trustees. The directive also includes plans to lift restrictions on long-term investments and retains additional funding and regulatory requirements for cross-border schemes.

The trustee welcomes any measures which improve communications and support good governance. We are a responsible long-term investor and in many of these areas we go most, if not all, of the way in fulfilling the proposed new requirements through our ongoing commitment to transparency and good governance. However, there is a concern that a number of the proposed reforms could prove to be an expensive administrative burden with potentially only limited practical benefits.

Whilst the revised directive retains cross-border requirements, it stops short of generally placing additional capital requirements on pension schemes. Work on these reforms is still being progressed by the European supervisory authority EIOPA (The European Insurance and Occupational Pensions Authority), and could pose a risk to most, if not all, defined benefit schemes in the UK as it would, in all likelihood, require substantial increases to pension contributions and could reduce the financial strength of sponsoring employers. Such regulation could also limit the scope for USS to invest in longer term assets such as infrastructure and private equity, effectively negating the Commission's efforts to encourage investment in this area. The trustee shall continue to engage with regulators and legislators in Europe as these important issues are given further consideration.

HM Revenue & Customs - Real Time Information (RTI)

The introduction of Real Time Information (RTI) represented the biggest change in payroll since the introduction of Pay As You Earn (PAYE) in 1944 and requires a Full Payment Submission (FPS) to be made to HM Revenue & Customs (HMRC) for each payroll that is processed i.e. for the scheme's beneficiaries, the trustee company staff and the staff of its wholly owned subsidiary USS Investment Management Ltd, requiring weekly and monthly pay runs on or before the day pension and salary payments are paid.

USS staff and pensions payroll systems were updated so that the agreed HMRC RTI go live date of August 2013 was achieved with the successful submission of employer alignment submissions to match records for the scheme, the trustee company and USS Investment Management Ltd with those of HMRC. In addition to FPS being delivered, additional submissions have also been made in respect of year to date adjustments and reclaiming of staff payroll rebates from statutory payments via the employer payment submission.

Financial Reporting Standard 102 (FRS102)

FRS102 will fundamentally change the UK's financial reporting framework; issued in March 2013 this new reporting standard consolidates existing UK Generally Accepted Accounting Principles (GAAP) and brings together a number of changes to the accounting standards landscape. One such change is the need for sponsoring employers to recognise the liability for contributions which are made to fund a pension deficit in multi-employer schemes. This will be the first time such a liability will need to be measured, recognised and disclosed on some employers' balance sheets.

The financial statements will also need to include a description of the extent to which one institution can be liable for other institutions' obligations under the terms and conditions of the multi-employer scheme and explain how that liability has been determined.

These requirements come into force for accounting years beginning on or after 1 January 2015. The responsibility for fulfilling these requirements lies with the participating institutions. However, we understand that guidance from the trustee company may be helpful and have therefore worked with the British Universities Finance Directors Group's Financial Reporting Group to develop a worked example of how deficit contribution liability could be calculated under FRS102 in order to assist institutions with the preparation of their own accounts. We distributed this guidance to institutions in May 2014.

The trustee company and its wholly-owned investment subsidiary company will also need to account for these additional disclosures in their own financial statements, as they are participating employers themselves.

In addition, under FRS102 pension scheme trustees need to make new disclosures in respect of investment risk, in particular covering credit and market risks; alongside additional disclosures relating to actuarial liabilities and provide information around the assumptions and methods used to calculate the valuation. The exposure draft of the pensions Statement of Recommended Practice was also issued which provides recommendations for how these accounting standards should be applied and how to account for sector-specific transactions. The trustee company established a project team to understand the impact and respond to the consultation on the exposure draft and we continue to work with both sector representatives and their advisers to support the implementation of these developments. The guidance is expected to be finalised in the autumn of 2014.

Taxation changes

Annual and Lifetime Allowance

With effect from the 2014/15 tax year the Lifetime Allowance (LTA) for pension savings has been reduced from £1.5 million to £1.25 million, and the Annual Allowance (AA) will be reduced from £50,000 per annum to £40,000 per annum.

The trustee has worked to improve the way data are captured and compiled to support LTA and AA calculations and also to develop new processes which automate the required AA calculations. We have also continued to work with institutions to improve the submission of data from employers and use of these data within our calculations.

The trustee is legally prohibited from providing financial advice but it is important to provide as much information as possible to ensure that those who may be affected by the LTA and AA are made aware of the new limits. In February of this year the trustee company issued an updated list to all institutions identifying those members with a high USS LTA value. We also provided individual communication packs for those potentially affected which contained a summary of the changes, a lifetime allowance 'ready reckoner' and 'tax options' checklist. Supporting information such as factsheets, a webinar and an online modelling tool were also provided. The trustee will continue to provide the information members need to manage their tax obligations in relation to LTA and AA.

Contracting-out changes

The Government is legislating to replace the current two-tier state pension with a single state pension. Under the outgoing two-tier system employees who were members of a contracted-out workplace pension scheme would not participate in the earnings-related state second pension (S2P), reducing the amount of National Insurance (NI) both the employer and employee pays in return for a reduced state pension.

From 6 April 2016 the earnings-related state second pension will be abolished and employees will no longer have the option of contracting out, nor can scheme trustees operate contracted-out pension schemes on a defined benefit basis.

This change will affect individuals in different ways depending on their specific circumstances. In the long-term, the Government predicts that the majority of people will benefit from this change. However, both scheme members and participating employers will be required to pay increased national insurance contributions at the standard rate (as opposed to the 'discounted' contracted out rate). It is estimated that this equates to approximately 2.2% of USS payroll for employers and 1.4% of eligible salary for members.

Provisions in the Pensions Act 2014 allow for a statutory override; a mechanism through which changes to workplace pension schemes can be made to offset the increases in employer National Insurance contributions. The Government consulted on the statutory override last year, publishing its response in February 2014, and a further consultation closed in May 2014.

These provisions allow for an employer to implement the statutory override at any time until 2021. The trustee is keen to ensure that this power is appropriately structured for operation in a non-sectionalised multi-employer arrangement like USS and will continue to liaise with industry groups on this matter.

The trustee is considering the impact of this legislative change alongside the ongoing work on scheme funding and the work to update the integrated approach to scheme funding, and continues to work with stakeholder groups to understand the overall implications for USS's members and institutions.

Financial performance and valuation

Holistic funding approach

Work is well underway to review and update the trustee's integrated approach to scheme funding. This work formalises, in a single, integrated form, the trustee board's strategy for delivering the benefits promised under the trust. This integrated approach informs the ongoing assessment the trustee board makes of the level of investment risk that is sustainable when balanced against the profile of the scheme's liabilities and the level of support available to the scheme from its sponsoring employers. It will also assess the impact of the overall funding strategy on the necessary contribution levels and any related funding considerations.

This work involves substantial dialogue between the trustee board and the scheme's sponsoring employers and other stakeholder bodies, which has been taking place throughout the year and will continue to do so as this integrated approach is further developed. This approach is in line with the Pensions Regulator's best practice and, as part of the normal process of developing the funding approach, the trustee company has been keeping the Pensions Regulator informed.

Triennial valuation

The three-yearly actuarial valuation of USS was last completed as at 31 March 2011; this means 2014 is a triennial valuation year and work on this year's valuation is now well under way. A degree of preparatory work was completed in 2013. The process involves detailed consideration by the trustee board and the scheme actuary of member data, demographic and behavioural patterns and movements within the membership, and financial information regarding the fund and its investments. Previous valuations have of course also looked at the depth and extent of the support available to the scheme from its sponsoring employers and in 2011, the trustee board engaged an independent adviser to provide an assessment of the employers' covenant strength. This work was updated more extensively in 2013.

The valuation process also looks at the wider economic landscape, and brings 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'.

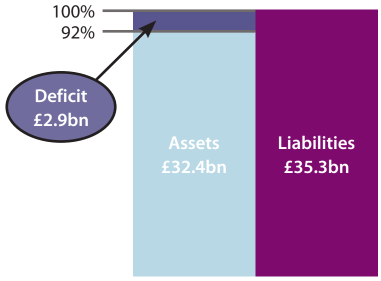
Funding position

In addition to the triennial valuation the trustee company measures the value of the fund's assets and liabilities on a regular basis. The scheme actuary also produces a valuation report annually, using the assumptions from the previous triennial valuation to calculate the funding position.

At the last triennial valuation of the scheme for the year end 31 March 2011, the trustee company reported a deficit of £2.9 billion. The net assets of the scheme represented 92% of the scheme's liabilities measured on the market value of the scheme's assets compared to an actuarial valuation of the amount needed to fund accrued benefits.

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%**



With regard to the intervening years since the last full actuarial valuation, a valuation report was produced as at 31 March 2012 using those same assumptions, at which time the net assets of the scheme represented 77% of the scheme's liabilities and the trustee reported a £9.8 billion deficit. The valuation report produced as at 31 March 2013 used those same assumptions and reported the net assets of the scheme continued to represent 77% of the scheme's liabilities although the absolute value of the deficit had increased to £11.5 billion.

This year a triennial valuation is being carried out and the assumptions are being updated. The triennial valuation will not be available for some months. However, the likelihood is there will continue to be a substantial deficit and the deficit recovery plan introduced in 2011 will need to be updated. There are a number of options for dealing with a continued substantial funding deficit including making changes to contribution rates and to future benefits. The trustee company is working with employer and member representatives to develop the appropriate response to these funding challenges and ensure that, given the changes in both Higher Education (HE) and the wider UK and indeed world economy, it has a suitably structured funding approach in place to be able to continue to deliver sustainable pensions for the HE sector.

Work to complete the triennial valuation is ongoing and therefore the trustee is not able to provide the final assessment of the funding position at this time. We are able to provide an assessment based upon the same assumptions adopted at the last triennial valuation which would put the overall funding ratio of assets to liabilities as at 31 March 2014 at approximately 85% with a scheme deficit in the region of £7 billion. However, this number does not reflect the updates that will be made to the assumptions as part of the formal valuation process, nor does it allow for any adjustments to the overall funding approach adopted by the trustee board in consultation with the stakeholders, therefore the number reported when the valuation is complete is likely to be materially different.

Operating costs

The operating costs for the year amounted to £83,403,000 (2013: £72,682,000), representing an overall increase of 15% compared to the prior year. Additional legislative and regulatory requirements have contributed to the increase in operating costs, along with the costs associated with the actuarial valuation preparations and reviewing and updating the funding approach. Unlike many similar pension schemes, USS remains open to new members and the scheme continues to grow. There has been a significant increase in membership in the year to 31 March 2014, due in part, to new legislation requiring employers to automatically enrol eligible employees into a qualifying workplace scheme. Total membership levels have increased from approximately 303,000 to 316,000, an increase of 4%.

As the scheme grows and develops the trustee must ensure that it has the right operating infrastructure in place to continue to deliver the level of service expected by our members and participating institutions. To that end, alongside the operating costs, the trustee company invested £3.5m in upgrading its IT infrastructure and adapting its office space to accommodate the increased head count at both the London and Liverpool sites.

The trustee remains committed to providing a high standard of service to members and sponsoring institutions and developing a 'best in class' in-house investment team within its wholly owned subsidiary. The trustee company continues to invest in the right people, processes and platforms in order to deliver high-quality support and above benchmark returns.

A summary of operating costs for both the administration and investment management functions for the year is as follows:

	2014 £'000	2013 £'000	Variance £'000	Variance %
Personnel costs	35,096	30,562	4,534	15
Premises costs	3,516	3,667	(151)	(4)
Investment costs	25,032	21,688	3,344	15
Other costs	19,759	16,765	2,994	18
	83,403	72,682	10,721	15

Corporate group structure

All costs incurred by USS Investment Management Ltd are recharged to the trustee company generating neither a profit nor a loss. The operating costs for the period amounted to £45.5m which is included in the total investment management costs of £57.5m incurred by the scheme. The operating costs were recharged to the trustee company in accordance with the Investment Management and Advisory Agreement (IMA).

Independent covenant assessment

Ahead of the 2011 valuation the trustee board appointed EY to provide advice on, and make assessments of, the strength of the employer covenant – that is the support available to the scheme from the sponsoring employers.

At that time EY provided a top-down analysis of the ability of the sector to support the scheme which, together with information from the funding councils, was used as the basis for the board's assessment of the strength of the employer covenant. The overall conclusion was that the covenant remained robust, providing substantial support to the scheme.

Since 2011 there have been a number of changes in the Higher Education sector which have affected institutional funding. At the same time USS, like almost all defined benefit pension schemes, has continued to face substantial funding challenges which have placed an increased focus upon the strength of the employer covenant.

Given this changed landscape, alongside other factors, the trustee board felt that a much more granular assessment of covenant strength was appropriate ahead of the 2014 valuation. The trustee retained EY as its independent covenant adviser to carry out a further assessment of the ability of the scheme's participating employers to support the current and future liabilities of the scheme.

The trustee instructed EY to focus on the ability of institutions to pay pensions contributions, rather than their willingness to make those payments or the appropriateness of paying contributions at specific levels. This meant assuming that the main priority for institutions was to pay pension contributions, alongside other legal obligations. Understanding how much the participating employers could pay, in extremis, is a regular aspect of pension scheme trusteeship. The trustee is, of course, aware of the need to balance the requirements of the pension scheme with the spending priorities set by employers to develop their businesses. The best form of support for a scheme is strong and viable sponsoring employers and investment in the business is critical – this is something the trustee has always been mindful of.

The government has recently introduced a new statutory objective for the Pensions Regulator to ensure that the right balance continues to be achieved between collecting pension payments and enabling the sponsoring employers to continue to achieve 'sustainable growth'.

It is, of course, for the employers to decide how much they are willing to pay for pension provision and what level of contributions they consider it appropriate to make given other priorities. This is something the employers, along with their representatives and advisers, are considering as part of the ongoing discussions around the future funding plan and specifically the outcome of this year's triennial valuation.

The work EY carried out ahead of the 2014 valuation considered the strength of the covenant at an individual institutional level alongside the sector-wide assessment. It therefore involved 59 field visits to institutions, including the 40 largest, and 19 selected as a representative sample of the remainder. These 59 institutions covered more than 80% of the scheme's liabilities. The field visits involved some very detailed work with participating institutions considering both historic and projected financial performance of the institutions in the sample.

This has enabled the trustee to build a full updated picture of the nature of the support that is likely to be available to the scheme both now and over the long term. It also includes both a quantitative and qualitative assessment of the link between the employer covenant and the level of investment risk the sponsoring employers are able to bear. The data gathered has enabled the trustee to develop a framework which links the ability of the sponsoring employers to pay contributions with the level of risk that it is appropriate for the trustee to adopt. In addition, the EY work identified that there was clear visibility of the covenant over a period of 20 years.

The findings from EY confirm a strength and resilience within the scheme's sponsoring employers which supports a reasonable reliance by the trustee on the sector continuing to be a world leader in Higher Education provision. The exercise supports the long-held belief that USS is backed by robust employers and the findings have informed the wider discussions with employer and member representatives about the appropriate response to the scheme funding position. The findings will also form part of the trustee's updated integrated approach to scheme funding.

The trustee, alongside representatives from EY, presented these findings to institutions via a webinar earlier this year. A recording of the webinar has been made available via USSonline.

Recovery plan

In 2011, in accordance with the scheme specific funding regime for defined benefit pension schemes, the trustee board put in place a recovery plan to deal with the deficit reported in that year's triennial valuation. The recovery plan set out the trustee board's planned approach to eliminate the funding deficit. The plan was compiled with care, taking into account the economic circumstances of the scheme, the strength of the sponsoring employers, and their capacity to meet deficit contributions, as well as the trustee board's investment strategy and beliefs.

After formal consultation with Universities UK, the employers' representative body, the board adopted a recovery plan to run for a 10-year period. It involved 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 assumed an additional 0.51% per year investment return, over and above the underlying prudent investment return assumption.

As discussed, the board anticipates a continuing substantial deficit will be reported in 2014 once the triennial valuation is complete and the recovery plan will be formally reviewed and updated in consultation with the scheme's stakeholders.

Strategic asset allocation review

USS Investment Management Ltd has continued to make progress in diversifying the scheme's Strategic Asset Allocation (SAA). Over the past four years the target allocation for listed equities has reduced from over 70% at the end of 2009 to 50% at the end of 2013. This has funded the build-up of alternative assets (spanning private equity and debt, infrastructure, property and timberland) and new allocations to UK inflation-linked gilts, as well as investment grade and emerging market bonds. Given the scale of the scheme and the nature of some targeted investment categories, it takes time to transform the asset mix. It is important therefore to have a medium to long-term view of the required strategy for the scheme.

In the second quarter of 2013, following consultation with the sector, revisions were made to the Statement of Investment Principles. This permitted the introduction of a liability-hedging programme which aims to reduce overall asset-liability risk and the exposure to inflation and interest rate risk in particular, whilst preserving as much return potential as possible.

The long-term strategy will be further developed following the outcome of the ongoing engagement with employer and member representatives around the triennial valuation and the updated integrated approach to scheme funding. It is envisaged that this update will produce a clear expression of the level of risk and return which is desirable for the fund and reflected in a reference portfolio which will be the trustee-owned expression of this risk and return target.

Governance

Directors/board membership

Universities Superannuation Scheme ('USS') is managed by the trustee in accordance with the scheme's Trust Deed and Rules. The trustee is Universities Superannuation Scheme Ltd (USS Ltd), a company established as the corporate trustee of the scheme.

Under the trustee's articles of association, the trustee board ('the board') consists of between 10 and 12 non-executive directors comprising:

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

There have been a number of changes in board membership throughout the year with Michael Butcher, an independent director, coming to the end of his term of office on 31 January 2014 and Michael Merton being appointed in his place with effect from 1 February 2014. Virginia Holmes stepped down as an independent director of the trustee board on 31 August 2013 to chair the investment management subsidiary company, USS Investment Management Ltd and was replaced on the board by Ian Maybury with effect from 1 November 2013. Professor John Bull came to the end of his term of office as an independent director on 31 March 2014 and was replaced by Kirsten English with effect from 1 May 2014.

Responsibilities of the board and executive

The board is responsible for the effective governance and oversight of the scheme to ensure that the promised benefits are paid to all beneficiaries in accordance with the trust and with governing legislation and regulatory guidance. In order to do this the board must ensure that:

- USS is adequately funded;
- Its investment strategy is appropriate for the scheme's liabilities, having regard to the support available from the scheme's sponsoring employers;
- It provides trusteeship of the highest standards, ensuring that it has the necessary skills and takes specialist advice where appropriate;
- Its scheme management, administration and investment services are delivered at a level with which the members and participating institutions are content.

The board is responsible for strategic decision-making and is focused on providing frameworks and establishing principles to support effective executive decisions. The board has appointed a Group Chief Executive Officer (GCEO) to implement its strategies and deliver its business plan through the day to day management of the scheme and trustee company. The GCEO has established a group executive team to support him in the delivery of the executive management functions including:

- Advising the board on the company's business strategy;
- Delivering an effective operating model for the scheme;
- Proposing annual group business plans to the board;
- Driving group performance against agreed business plans;
- Ensuring the implementation of agreed internal control functions; and
- Overseeing the work of the risk committee in identifying, evaluating, monitoring and managing the group's risks.

Board and committee meetings

The full board met five times in the year considering and making decisions in relation to more than 150 items of business. Summary reports for each of the committees can be found on pages 106 to 118. The average attendance for board meetings was 94%. Attendance figures for individual directors at board and sub-committee meetings are below (maximum possible attendance in brackets):

	Board	Investment	F&PC[1]	Audit	Remuneration	Rules	GNC[3]
Meetings held in the year	**5**	**5**	**4**	5	3	**5**	**4**
Sir Martin Harris	5(5)	5(5)	–	–	–	–	3(4)
Professor Dame Glynis Breakwell	4(5)	4(5)	–	–	2(3)	–	–
Professor John Bull (term ended 31/03/14)	5(5)	5(5)	4(4)	5(5)	–	–	4(4)
Mr Michael Butcher (term ended 31/01/14)	4(4)	–	–	5(5)	3(3)	–	–
Dr Kevin Carter	5(5)	5(5)	1(3)	–	–	–	–
Mr Joseph Devlin	5(5)	–	4(4)	5(5)	3(3)	–	–
Professor Sir David Eastwood	5(5)	–	3(4)	–	–	–	4(4)
Mrs Virginia Holmes (term ended 31/08/13)	1(1)	5(5)[2]	0(1)	–	–	–	–
Mr Ian Maybury (appointed 01/11/13)	3(3)	2(2)	–	–	–	–	4(4)
Mr David McDonnell	5(5)	4(5)	–	5(5)	3(3)	–	–
Mr Michael Merton (appointed 01/02/14)	1(1)	–	–	–	–	–	–
Mr Rene Poisson	5(5)	–	4(4)	–	–	–	–
Dr Angela Roger	4(5)	4(4)	–	–	–	–	3(4)
Mr Bill Trythall	5(5)	–	4(4)	–	–	5(5)	–

[1]Finance & Policy Committee
[2]Virginia Holmes' position on the investment committee changed from chairman (and independent director of the trustee board) to special member of that committee, and chairman of USS Investment Management Ltd with effect from 1 September 2013.
[3]Governance & Nominations Committee

Board effectiveness and training

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

- An effectiveness review of the board and its principal committees, covering key elements of the governance structure and arrangements;
- An appraisal of the skills and experience of each director against the requirements for trustee knowledge and understanding as set out by the Pensions Regulator;
- A review of the effectiveness of the trustee company's Audit Committee;
- The development of an improved skills audit methodology to better identify training and recruitment needs;
- Development of an enhanced appraisal and training programme designed to better deliver group and individual development in 2014/15; and
- Delivery of a comprehensive induction programme for two new directors.

The board took part in a full programme of education and training in the year which included sessions on:

- Updating the integrated scheme funding approach;
- Legislative developments and scheme policy;
- Stakeholder engagement;
- Strategic asset allocation; and
- Managing longevity risk

Audit committee

A policy on the appointment, remuneration and rotation of external auditors was developed and approved by the audit committee in October 2013. The policy principles require the committee to base its recommendation to the board for the appointment, reappointment and remuneration of the auditor on an assessment of the qualifications, expertise, resources and independence of the auditor and the effectiveness of the audit process. It stipulates that a competitive tendering process should be undertaken at least every seven years and is in line with best practice in the Higher Education sector.

The current auditor was selected following a full tendering process in November 2012 and providing that performance is (and continues to be) satisfactory, it is not intended to put the contract out to tender until 2019 in line with the agreed policy. A review of the effectiveness of the external audit process is conducted annually by the executive which considers performance against the guidance for audit committees published by the Financial Reporting Council (FRC). Key assessment areas include whether the auditor has met the agreed plan, the robustness and perceptiveness of the auditors handling of key accounting and audit judgements, the conduct of the audit from key people involved and the content of the external auditor's management letter.

Outcomes of the review are considered by the committee and inform its report to the board on the effectiveness of external audit. This process was conducted in October 2013 at the end of the auditor's first year of engagement and the committee considered the executive's assessment of overall auditor performance as satisfactory and noted no actions identified for improvement. The committee was satisfied that performance requirements had been met and reported this to the board.

Michael Butcher stood down as chairman of the committee on 31 January 2014 and was replaced by Michael Merton from 1 February 2014.

The external auditor has not provided any non-audit services in the reporting period.

Remuneration committee

The remuneration committee is responsible for the implementation of the policy for the recruitment and retention of group employees, with the exception of the Group Chief Executive Officer, whose remuneration is determined at board level and the Chief Investment Officer/Chief Executive of USS Investment Management Ltd whose remuneration is determined by the remuneration committee chairman in conjunction with the chairman of the investment management subsidiary.

During the year the committee considered the total level of compensation and benefits and the bonus scheme and long-term incentive plans for investment staff. Compensation is benchmarked using McLagan, a performance and reward consultancy for the financial services industry. Bonuses are linked to the long term aims and objectives of the organisation and are paid on calendar year performance over two and five year periods. Bonus payments are based on individual performance and total company performance. The incentive plans stipulate that above a certain threshold, a significant part of the award is deferred for a period of three years. Senior employees participate in a long-term incentive plan which is linked to performance over three to five years and is only payable after that period.

The trustee company carefully monitors all of its activities to ensure it can continue to provide a cost effective service to members and institutions. The trustee company favours in-house investment management and will only seek external provision if the skills required are not available in-house and are too costly to develop in a timely fashion. This approach ensures USS remains cost effective compared to global pension schemes of a similar size and scale. In 2012, the latest year for which figures are available, USS Investment Management Ltd costs were approximately £40 million less than the industry benchmark for a scheme of the size and asset mix held by USS.

USS is committed to providing a good quality pension service for members and institutions. This includes responding to legislative changes such as auto-enrolment and changes to pensions tax allowances in order to support members and institutions to meet their legal duties.

Overall personnel costs have increased by 15% in the year to March 2014 due to increased headcount in both the pension administration and investment management functions.

Many of the new appointments have been a necessary response to recent regulatory changes, including the introduction of auto-enrolment across USS employers and related administration changes, revisions to pensions tax arrangements and the production of new savings statements, and changes to scheme accounting rules.

During the year the committee took on an additional responsibility for reviewing and making recommendations to the board on director remuneration in accordance with overall parameters agreed by the board and the Joint Negotiating Committee.

The Remuneration Committee does not have any discretionary powers.

Principal risks and uncertainties

Risk management and internal control system

The trustee board's expectations for risk management are set down in the trustee's risk governance policy which defines its risk appetite, the types of risks the trustee company is exposed to and the related risk governance arrangements. Risks that could impact on the delivery of the trustee's business objectives, and the internal control systems that support them, are documented and assessed against risk appetite. Where risks are found to be operating outside risk appetite, appropriate remedial actions are devised, implemented and tracked to resolution.

The board believes that the systems of internal control at USS are adequate to provide reasonable assurance that risks are being managed appropriately. The trustee is organised into a three lines of defence model whereby risks are identified and managed by the first line business units, overseen by the risk functions and independently assured by the internal audit team. Risk reporting is provided to the executive risk committees and their respective legal entity boards and relevant board sub-committees.

A copy of the risk governance policy can be obtained from the Company Secretary whose contact details are on page 53.

Other matters

Scheme mergers

The trustee company has a merger policy in place which is available for USS institutions to consider. It has been developed to support institutions which wish to investigate the possibility of a merger with USS of a scheme for support staff. A merger is a complex undertaking which can take some time to complete and in addition the challenging funding environment has added a further layer of consideration for institutions considering a merger. Specific flexibilities are available in appropriate circumstances (e.g. deficit repayment periods, treatment of transferring staff etc.) which we know through experience are essential elements within the overall policy.

Pension increases

USS pensions are generally increased in line with increases in 'official pensions' as defined in the Pensions (Increase) Act 1971, although from 1 October 2011 scheme changes introduced limits on such increases in respect of rights that accrue after that date. From April 2014 USS pensions which started in payment before 23 April 2013 were increased by 2.7% representing the increase in the consumer prices index increase over the 12 month period to September 2013. Pensions which commenced after 22 April 2013 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 2013. A report of the proceedings and meeting content is available on USSonline.

Late payments

During the year there were no late payments of contributions.

Internal dispute resolution (IDR) process

Dispute resolution procedures in the trustee company provide for the Head of Pensions Operations, 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 trustee 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 Head of Pensions Operations at stage one of the internal dispute resolution procedure. Eleven cases were considered at stage two of the procedure. In all eleven cases the officer's decision at stage one of the internal disputes resolution procedure was upheld.

There have been no referrals to the Pensions Ombudsman in the year to 31 March 2014.

Contribution rates

The rates of ordinary contributions payable by members and institutions between 1 April 2013 and 31 March 2014 were as follows:

Final salary section

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)

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

Non-joiners

22% of the total number of staff becoming eligible to join the scheme elected not to do so.

Scheme changes

During the year there have been four formal changes to the scheme rules which have been agreed by the trustee board in conjunction with the Joint Negotiating Committee, with the changes covering the following areas:

- Flexible retirement for members with multiple appointments;
- Clarification of the interaction between the USS rules and other pension schemes for eligible employees who have continued as a member of a non-USS arrangement;
- Arrangements for support staff who are promoted to USS-eligible roles; and
- Benefits payable to the surviving partner of a marriage or civil partnership of a USS member.

Disclosure Requirements

The general rights which members and beneficiaries enjoy to request information under trust law are greatly supplemented by the statutory disclosure requirements which apply under the Occupational Pension Scheme (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 and providing information such as the scheme trust deed and rules publicly, again via the scheme 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; contact details can be found on page 83.

Data quality and information security

The trustee's data quality team is responsible for maintaining a high standard of data quality across the entire scheme membership. In addition to improving scheme administration the team also ensures that the trustee company is complying with the Pensions Regulator's (tPR) guidelines for record keeping.

The team achieved data success by assessing over three million pieces of member data and updating in excess of 25,000 member records. These good data enabled the trustee company to successfully meet tPR requirements for common data standards ahead of the December 2012 deadline. The common data standards remain under constant review to ensure that the scheme remains compliant with the Regulator's guidance.

The team, with the support of the scheme's participating institutions, continues to focus on additional areas of data improvement beyond the remits of common data. These additional areas largely form part of the conditional data requirements as briefly illustrated by tPR in its 2010 good record keeping guidance. Conditional data differs from common data in two ways, firstly the Regulator states that it is the responsibility of individual schemes to identify, measure and correct the data items relevant to its structure and secondly, whilst the Regulator expects schemes to have started the process of defining and measuring their data, no target date or deadline has been set. USS Ltd has identified 39 important data items and we are actively progressing with the measurement and correction of any issues as required.

The quality of our members' data and the security of the confidential information used in the course of the scheme administration and investment activities remains a top priority. The trustee company's information security function has delivered a number of improvement initiatives over the year to help protect these data. This includes the introduction of a new knowledge base tool specifically focusing on data protection procedures which has been designed to assist employees when handling data protection type queries in order to help ensure that the trustee company continues to meet its obligations under the Data Protection Act. Participating institutions have a crucial role to play in both the supply and protection of employee data, and the trustee company is grateful for their ongoing support in this regard.

Auditor

Grant Thornton UK LLP is the auditor for the scheme, trustee company and investment subsidiary.

Actuaries

Ali Tayyebi (Mercer Ltd) has been the scheme's actuary since 21 February 2013.

Acknowledgements

The board wishes to recognise a number of directors and committee members for their contribution to USS matters over the course of the year, and over the term of their office.

Special thanks are extended to Professor John Bull for his contribution to USS matters during his 10 year tenure as director of the board, which included holding positions of deputy chairman, senior independent director, chairman of the governance and nominations committee, chairman of the finance and policy committee and member of the investment committee and the audit committee.

The chairman would also like to extend the board's thanks to Michael Butcher for his contribution to USS matters during his term of office as a director of the board and also as chairman of the audit committee and for his work on the remuneration committee.

The chairman also wishes to thank to Howard Jacobs for his contribution to USS matters during his term of office as chairman of the rules committee and to Graham Allen for his contribution as a special member of the investment committee.

The chairman also wishes to thank Denis Linfoot for his long-standing contribution to USS matters during his term of office on the rules committee and the Joint Negotiating Committee; Denis first joined USS in 1982. He has been replaced as the UUK appointee to the rules committee by Cliff Vidgeon with effect from 1 April 2014 and as a UUK appointee to the Joint Negotiating Committee by Malcolm Ace from January 2014. Mr Ace retired from the committee on 24 April 2014 when he was replaced by John Neilson.

The chairman would also like to thank Jimmy Donaghey and Joe Gluza for their contribution to USS matters as members of the advisory committee and David Goode and Marion Hersh who replaced them on the Committee in July 2013.

The board extends its thanks to the following members of the Joint Negotiating Committee for their contribution to USS matters; Roger Brooks; Alan Carr; Angela Lamb; and Malcolm Povey. Jimmy Donaghey, Marion Hersh, Joe Gluza and Gordon Watson joined the committee in their place in July 2013.

This will also be the last report and accounts prepared by David Webster, Chief Financial & Resource Officer for the trustee company, who is stepping down this year after three and a half years service. The board wishes to extend its warmest thanks to David for all of the work he has done, not just in relation to the annual reports but also for the substantial piece of work in co-ordinating the employer covenant assessment and more generally for his knowledge and expertise which has served USS, and the HE sector, extremely well in his time with us. We wish him the very best of luck in his future endeavours.

Finally, the board also wishes to again express its appreciation of the services given by all those involved in the administration and management of USS, including the staff of the trustee company in Liverpool and of the investment subsidiary in London, as well as the officers of the institutions that participate in the scheme. It wishes also to thank the USS consultants and advisers whose specialist knowledge and experience make a valuable contribution to the company.

Investment report

Key Highlights

- The value of the scheme's net assets rose by 8% or £3.0 billion over the financial year to £41.6 billion (excluding money purchase AVC investments).
- Over the year, as gilt yields rose, the value of the scheme's liabilities fell by 3% or £1.3 billion to £48.8 billion, when calculated on a basis consistent with the 2011 valuation.
- The global economy has recovered somewhat and moderate growth is expected in the coming year.
- Market attention has focused on the potential timing of Central Bank interest rate rises, although low inflation may defer this and could lead to easing by the European Central Bank.

Global market review

Global growth expectations have been improving over the past 12 months, particularly in developed economies where economic reforms following the financial crisis have begun feeding through to the real economy. This change in outlook has been particularly noticeable in the UK where 2014 GDP growth is now expected to be around 3%, the fastest growth rate amongst the G8 countries. A year ago market consensus was that the UK economy would only grow by 1.5% in 2014. A similar picture can be seen in Spain where growth of 0.7% is now expected compared to previous expectations for another year of recession. However, this improved growth outlook is not feeding through to higher inflation expectations leading to some worries about the emergence of deflation particularly within the Eurozone. Japan's experience suggests that once entrenched deflation becomes a very difficult problem to solve – the government of Shinzo Abe seems to be making more progress than his predecessors but the market remains concerned that the structural reforms to liberalise the Japanese economy are still not being pursued with sufficient vigour.

This macro economic backdrop led to somewhat more supportive market conditions for pension funds. The yield on ten-year UK index linked gilts rose to -0.3% on 31 March 2014 from -1.6% on 31 March 2013, whilst the yield on ten-year nominal gilts rose from 1.8% to 2.7% over the same period. Longer-dated yields rose considerably less, with 30 year index-linked and nominal gilt yields rising only by 0.2% and 0.4% respectively from close to all-time lows. The UK (CPI) inflation rate during the year to 31 March 2014 was 1.6%, a decline from the rate of 2.8% recorded in the prior 12 months.

The value of pension fund assets was boosted by another year of good returns from equity markets although the strength of Sterling dampened returns for a UK based investor on their overseas holdings. Sterling rose by 7% against the currencies of its major trading partners and was particularly strong compared to many emerging market currencies. The MSCI All Countries World Index rose 17% in local currencies (7% in Sterling) over the 12 months to end March 2014, with the strongest performance coming from peripheral European markets (Greece, Italy and Spain) and the biotech and technology sectors within the US market. Returns from emerging markets again lagged behind as GDP expectations were revised down and political risk rose with key elections approaching in a number of large countries (India, Brazil, Turkey, Thailand) and tensions in Ukraine. UK Government bond indices delivered a negative return over the year with the FTSE Actuaries UK Government Securities Indices returning between -1% and -4% and UK index-linked gilts returning between -2% and -7% depending on the maturity used. These negative returns follow several years of strong returns and reflected the market's perception that yields had fallen to unattractive levels given the recovery in growth. Credit markets and international bond markets performed more strongly than UK government bonds as yield spreads narrowed particularly in the more risky, high yielding segment of the markets. The iBoxx Sterling Corporate bond index rose by 2.5%, whilst the Barclays US High Yield Corporate bond index rose 7.5%. Property, measured by the IPD Large Life & Pensions Property Index rose 12% over the year to end March. Within the alternative asset classes, commodities measured by the GSCI index rose only 1%, and hedge funds measured by the HFRI Global Hedge Fund Index rose 5%, whilst private equity performed more in line with the public equity markets.

Investment Performance

Investment performance shown below is on a calendar year rather than financial year basis. We provide a calendar year measure as the Large Life and Pension Funds benchmark for the property portfolio is only calculated annually with a December year end and must be estimated for other periods. Unless otherwise stated, the commentary in this section refers to calendar years i.e. 2013 is the year to December 2013.

The total fund rose 12.8% in 2013 underperforming its strategic asset allocation benchmark by 0.3% but outperforming the growth in value of the scheme's liabilities by 11.7%. Over the last three years the total fund has returned 8.1% p.a. outperforming the strategic asset allocation benchmark of 7.7% p.a. over the period by 0.4%. Whilst over the last five years the total fund has returned 11.2% p.a. outperforming the strategic asset allocation benchmark of 11.0% p.a. over the period by 0.2% p.a. The reported underperformance in 2013 is largely due to lags in the valuation of the fund's illiquid assets compared to the benchmarks against which they are measured. As can be seen in the second table below the updated valuation of these assets had a material impact on relative performance for periods to the end of the first quarter of 2014.

	12 months to December 2013			Three years (annualised)			Five Years (annualised)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
USS Investment Management Ltd	+13.0%	+13.3%	**-0.3%**	+8.4%	+7.9%	**+0.5%**	+11.0%	+10.7%	**+0.3%**
Total Fund	+12.8%	+13.1%	**-0.3%**	+8.1%	+7.7%	**+0.4%**	+11.2%	+11.0%	**+0.2%**

	Financial Year to March 2014			Three years (annualised)			Five Years (annualised)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
USS Investment Management Ltd	+7.9%	+6.5%	**+1.4%**	+8.7%	+8.0%	**+0.7%**	+13.0%	+12.5%	**+0.5%**
Total Fund	+7.6%	+6.3%	**+1.3%**	+8.4%	+7.7%	**+0.7%**	+13.4%	+13.1%	**+0.3%**

USS Investment Management Ltd structure

USS Investment Management Ltd, a wholly owned subsidiary of Universities Superannuation Scheme Ltd, is the principal investment manager and advisor to the scheme. The trustee company, via its investment committee, retains responsibility for setting the overall strategy for the scheme. As the in-house investment manager, USS Investment Management Ltd is focused on delivering the investment requirements of the scheme, with a strong alignment of interests and without potentially conflicting commercial motivations. However, some areas of investment sought for the scheme may not match existing internal skills, experience or operational capability and it may not be cost-effective or desirable to build the required capability internally. In these circumstances, USS Investment Management Ltd will select external managers to undertake investment on its behalf. The following table shows the principal investment managers appointed by USS Investment Management Ltd, their mandate and the percentage of the total scheme each managed as at 31 March 2014:

	Mandate	% Assets
USS Investment Management Ltd Public Markets actively managed	Multiple	66%
USS Investment Management Ltd Private Markets	Multiple external funds and providers	19%
Legal & General Assurance (Pensions Management)	Multiple	10%
BlueBay Asset Management	Euro Investment Grade Credit	1%
Royal London Asset Management	Sterling Investment Grade Credit	1%
Credit Suisse	Emerging Market Debt	1%
Investec	Emerging Market Debt	1%
Pictet	Emerging Market Debt	1%

The property team at USS Investment Management Ltd uses external investment advisors, property management services and some externally managed property funds. 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	Grand Arcade Shopping Centre, Cambridge	DTZ
	Monks Cross Shopping Park, York	Savills
	Whiteley, Fareham	Munroe K Asset Management
	Other Retail and Leisure, Offices and Industrial	Workman & Partners

During the year the trustee company has, on the recommendation of the investment committee and after consultation with the sponsoring employers and investment advisors, established a liability driven investment (liability hedging) portfolio. This should help to reduce the volatility in the scheme funding position and in part, recognises the gradual maturing of the scheme's membership.

The size of the hedging programme will be gradually expanded as market conditions and the funding ratio permits. As is common with liability hedging programmes, the investments in index-linked gilts or equivalent instruments need not be fully funded by equivalent sales of return-seeking asset exposures, introducing an element of (implicit) borrowing. This is considered prudent as it allows the fund's assets to be utilised more efficiently to maintain the expected returns. The Statement of Investment Principles was updated to reflect this change in approach.

In addition to the liability hedging mandate USS Investment Management Ltd has invested directly in assets, such as infrastructure, which can offer returns that are significantly correlated with the scheme's liabilities in the long term. Opportunities are also being explored across other areas of the capital markets to re-position portfolios to be more liability aligned. Having a well resourced in-house manager enables innovative solutions to the scheme's specific needs to be introduced cost effectively.

Summary of the Statement of Investment Principles

The Statement of Investment Principles ("SIP"), as required by section 35 of the Pensions Act 1995, establishes the broad principles governing the investment policy of the board and provides information on other key aspects of the scheme's investment programme. The board reviews the statement at least every three years and also 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 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 manager that it has exercised the powers delegated to it in keeping with the principles contained in the SIP as far as reasonably practicable.

As an active and responsible long term investor the trustee company seeks to take advantage of its rights, including voting rights, attached to its investments. The board's approach to stewardship and engagement is pragmatic with an emphasis on those areas which could have a material impact on the fund. In terms of social, environmental and corporate governance issues, the board's approach is to integrate consideration of these issues into the investment process and these matters are taken into account in the selection, retention and realisation of investments. The trustee company's Responsible Investment (RI) policy is consistent with the board's legal duties under trust law; further information is available on page 33.

The full Statement of Investment Principles can be found on pages 34 to 45. It contains additional information on the trustee company's approach to risk, diversification, governance, responsible investment and the strategic investment benchmark. The expected "normal" long term returns in excess of CPI inflation for various asset classes are also detailed. These are shown in the table below:

Listed Equities	5.25%
Private Equity and Debt	5.25-8.25%
Infrastructure	3.25-4.75%
Absolute Return	4.00-5.25%
Property	4.00%
Emerging Market Debt	3.25%
Investment Grade Non Government Bonds	3.25%
UK Gilts	2.25%
UK Index-Linked Gilts	2.00%

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 generally 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 board 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, changes to the scheme's investments were made 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 is responsible for appointing custodians for the scheme's assets; it does so on the advice of the investment committee and its advisors.

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 board has appointed JP Morgan Chase to act as custodian for the majority of the assets managed by USS Investment Management Ltd. Northern Trust was appointed as a custodian for some externally managed mandates in 2014. Bank of New York Mellon acts as custodian for one externally managed mandate in investment grade non-government bonds.

Distribution of the scheme's assets

The table below sets out the fund's approximate asset exposure distribution, its position relative to the strategic benchmark and the tolerance limits which were in place on 31 March 2014. The table excludes the money purchase AVC programme, which is separately managed by Prudential.

%	Fund	Benchmark (SAA)	Active Position	Tolerance Range
Equities	**43.8%**	**46.9%**	**-3.1%**	**+/-7.5%**
Developed Markets	36.1%	38.9%	-2.8%	–
– UK	15.4%	15.6%	-0.2%	–
– N America	4.8%	7.0%	-2.2%	–
– Europe	9.5%	9.3%	0.2%	–
– Pacific inc Japan	6.4%	7.0%	-0.6%	–
Emerging Markets	7.7%	8.0%	-0.3%	–
Alternatives	**19.3%**	**19.4%**	-0.1%	**+/-10%**
– Private Capital	10.9%	10.9%	–	–
– Infrastructure	5.1%	5.2%	-0.1%	–
– Absolute Return	3.3%	3.3%	–	–
Fixed Income	**28.5%**	**27.0%**	**1.5%**	**+/-5%**
– Global Government	16.5%	17.0%	-0.5%	–
– Liability Hedging Portfolio	6.6%	4.5%	2.1%	–
– Investment Grade Credit	2.4%	2.5%	-0.1%	–
– Emerging Market Debt	3.0%	3.0%	–	–
Property	**6.6%**	**6.6%**	**–**	**+/-5%**
Cash	**-1.2%**	**0.2%**	**-1.4%**	**+/-10%**
Tactical Asset Allocation	**3.2%**	**–**	**3.2%**	**–**
Total Fund	**100%**	**100%**	**–**	**–**

N.B. Figures in the table may not sum to 100 due to rounding

The investment committee takes into consideration the liquidity of the asset classes together with the liability and cash flow profile of the scheme 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 approximately a quarter of the scheme's assets. The board has supported this allocation, given the positive cash flow profile of the scheme, the strength of the employer covenant and the expected returns and diversification which are available from less liquid asset classes.

Money Purchase AVCs

The board has selected 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.

Summary of the investments

Below are the scheme's 20 largest investments in listed equities and in bonds.

Asset	Value £M	Fund %
UK Treasury Gilt 3.25% 22/01/2044	1,650.5	3.9
UK Treasury 0.75% IL 22/03/2034	1,385.9	3.3
UK Treasury 4.5% 07/09/2034	603.7	1.4
UK Treasury 0.625% IL 22/03/2040	501.5	1.2
UK Treasury 6% 07/12/2028	491.5	1.2
UK Treasury 4.25% 07/12/2040	465.1	1.1
US Treasury 0.625% IL 15/02/2043	421.4	1.0
UK Treasury 0.125% IL 22/03/2044	407.0	1.0
UK Treasury Gilt 3.5% 22/07/2068	367.5	0.9
Royal Dutch Shell	351.1	0.8
UK Tsy 4.25% 07/09/2039	334.3	0.8
UK Treasury 4.75% 07/12/2030	316.8	0.8
HSBC Holdings	301.4	0.7
UK Treasury Gilt 3.75% 22/07/2052	261.4	0.6
UK Treasury 0.25% IL 22/03/2052	259.7	0.6
UK Treasury 2.5% IL 17/07/24	206.0	0.5
UK Treasury 5% 07/03/2025	196.6	0.5
Nestle	193.7	0.5
GlaxoSmithKline	190.9	0.5
British American Tobacco	189.0	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 (RI)

The trustee company's RI policy must be consistent with its legal duties under trust law. This means treating the financial interests of scheme members as paramount and managing the fund consistently with proper diversification and prudence. The legal advice the board has received is that the trustee company is not permitted to make investment decisions based purely on an ethical or moral stance. Thus, the board does not practise ethical screening based on moral, social or environmental factors.

However, the board believes that it can and should take ethical, environmental, governance (ESG) issues into account in investment-decision making where these issues are material to a company's performance. The board continues to take steps to integrate ESG issues into its investment processes. The board employs six specialists within USS Investment Management Ltd to ensure that RI remains a key focus across all asset classes held in both internally and externally managed portfolios.

In public equities, the trustee company has continued to engage with companies from a range of sectors covering a variety of issues. For example, ensuring the remuneration of executives is linked appropriately to company performance remains a priority area of focus; the trustee company has a strong record of both engaging with companies with poor remuneration policies and practices and of voting against such practice. The RI team has also raised issues associated with stranded assets with a number of different companies and met with companies providing solutions to the significant pollution problem faced in China.

Scheme members have increasingly requested information regarding how the trustee company is addressing climate change through its investment portfolio. The board has, for many years, been a leading proponent amongst pension schemes of action to address climate change, and actively engages with policy makers and companies on climate related issues. In common with other UK pension schemes, whilst the fund is invested in oil, gas and other resource companies, the fund is also made up of significant holdings in renewable energy assets.

As the board seeks to allocate more capital to long term investments in infrastructure due diligence to assess the potential ESG risks associated with these investments, prior to deal completion, has become a strong focus of RI activity. This activity builds on the experiences gained from the due diligence process conducted on private equity and hedge funds developed by the in-house investment team over recent years.

The trustee company's position as a large, long term investor means that it has a responsibility to engage on policies that could impact its potential to deliver long term sustainable returns. As a result the board has engaged with global policy makers on a diverse range of issues ranging from the independence of financial auditors to the price of carbon in Europe, and from corporate governance standards in Japan to the potential environmental impact of fracking.

More details of the fund's RI activities, including voting records, are available on the USS website: **www.uss.co.uk**.

Awards

The trustee company has been frequently recognised in the awards given by trade publications. The scheme was shortlisted for Global Infrastructure Investor of the Year by Infrastructure Investor magazine. Whiteley Shopping Centre, which was developed by the trustee company in a joint venture with British Land Company Plc, was awarded a Commendation in the New Centre category of the British Council of Shopping Centres Gold Awards 2013. The trustee company also won the 2013 aiCIO European Innovation Award for Asset Allocation and the Education Focused Pension Scheme of the Year at the Acquisition International Finance Awards.

Statement of Investment Principles

1. Introduction

This statement details the principles governing the investment policy of the Universities Superannuation Scheme (the scheme). It has been prepared by Universities Superannuation Scheme Ltd (the trustee company), having been advised by its investment consultants and after consultation with all the participating employers in the scheme.

It complies with requirements of the Pensions Act 1995, as amended, and the Occupational Pension Schemes (Investment) Regulations 2005.

It is reviewed at least every three years, to coincide with the triennial valuation process, or sooner if there are any significant changes in investment policy or there is a material change in the scheme's funding position or other circumstances which, the trustee company determines, warrant a reconsideration of strategic asset allocation and risk tolerance beyond responses envisaged in the latest Statement of Investment Principles.

2. Objectives

The trustee company is responsible for the stewardship of the scheme's assets. Its main objective is to ensure sufficiency of assets to pay benefits as they fall due.

Pensions' legislation requires trustees to set out their funding objectives in a Statement of Funding Principles. A copy of the latest document is available on the USS website, **www.uss.co.uk**.

The trustee company has adopted a strategic asset allocation with an expected investment return which, together with contributions, will meet the scheme's objectives. The strategic allocation results in a scheme specific benchmark which enables the trustee company to monitor the actual performance of the scheme assets and to assess the investment managers appointed to manage the assets on a day-to-day basis.

3. Investment beliefs

The assumptions and beliefs concerning investment risk and returns, on which the trustee company's benchmark and investment management structure are based, are reviewed regularly by the investment committee and the board. The current beliefs are set out in annex 2.

The board's current beliefs on the equilibrium long-term real returns across asset classes are set out in annex 3.

4. Investment management structure

The trustee company has delegated management of the scheme's assets to its 100% owned subsidiary USS Investment Management Ltd. This relationship is governed by an investment management agreement covering discretionary investment management, certain investment advisory and ancillary services. USS Investment Management Ltd recovers its cost from the scheme via the trustee company.

The majority of the fund's investments are currently managed internally by USS Investment Management Ltd. This is generally supported by USS Investment Management Ltd's longer-term investment orientation and incentives, lower costs, greater transparency and alignment of interests, including the absence of marketing, asset-gathering or commercial demands. USS Investment Management Ltd is also tasked with managing the scheme's external investment managers as appropriate. It does this by assessing their skill, their ability to generate expected net returns versus relevant benchmarks, ability to diversify the scheme's market risks, fund manager risks and range of opportunities and styles beyond what could be delivered economically and competitively by USS Investment Management Ltd internally. Index tracking is used as appropriate to reduce investment management costs and risk relative to benchmark.

The alternative asset programme is managed by USS Investment Management Ltd, substantially through sub-contracting management functions to external specialist managers and funds, but also through co-investment and direct investment, notably in infrastructure.

The overall property portfolio is managed by USS Investment Management Ltd, primarily on a direct basis, with advice received from external specialists. External managers or funds are used as appropriate.

The external investment 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 or USS Investment Management Ltd as its agent to be the best way of securing their services while encouraging outperformance and ensuring value for money.

5. Governance

The current terms of reference of the sub-committees of the board and the matters reserved for the board are on the USS website. The key elements relevant to the management of the scheme's investments are as follows.

The trustee company's board's responsibilities include:

- approving the statement of funding principles;
- approving the statement of investment principles after consultation with the sponsoring employers;
- determining the risk tolerance of the scheme;
- ensuring that the investment policy is appropriate given the scheme's funding position, liabilities and covenant;
- setting the assumptions used to determine the scheme liabilities (technical provisions) as part of the triennial valuation;
- establishing the strategic asset allocation;
- approving the overall investment management structure, including approving changes to the investment management agreement with USS Investment Management Ltd;
- appointing independent custodians, investment performance consultants and investment consultants for the scheme.

The investment committee's responsibilities include:

- monitoring and reviewing the strategic asset allocation of the scheme, risk tolerance, asset class ranges and frequency of re-balancing;
- monitoring and reviewing the case for including new asset classes or strategies;
- recommending changes to the strategic asset allocation in accordance with the above;
- determining the appropriate benchmarks, risk parameters and performance targets;
- monitoring the overall performance of the scheme and each of its appointed investment managers and making recommendations to the board related to performance;
- setting the overall risk budget for the investment managers;
- developing and maintaining the scheme's approach to investment and operational risk;
- reviewing and determining compliance with the investment beliefs and statement of investment principles and, where appropriate, recommending changes to the board;
- overseeing the delivery of services under the investment management agreement with USS Investment Management Ltd and, if applicable, the delivery of services by other managers;
- recommending to the board any necessary changes to the investment management agreement with USS Investment Management Ltd ;
- reviewing and selecting the range of investment options under the money purchase additional voluntary contribution scheme;
- ensuring that the scheme's assets are held either in the name of the scheme or with a professional custodian; and
- establishing, where necessary, sub-committees to assist in fulfilling its duties.

USS Investment Management Ltd's responsibilities include:

- implementation of the scheme's investment policy with due care to quality of services, robustness, risks and costs;
- discretionary investment management of the scheme's assets, including oversight over external managers appointed by USS Investment Management Ltd under its delegated authority;
- advising the trustee company on changes to the strategic asset allocation, risk tolerances and risk management strategies;
- advising the trustee company on other matters relating to the management of the scheme's assets or liability risks, including the provision of custodial and performance measurement services; and
- reporting on investment and operational performance to the investment committee and board as required.

6. Risk management

The trustee company recognises the scheme is exposed to both investment and operational risks. The trustee company gives quantitative and qualitative consideration to these risks when deciding investment policy, strategic asset allocation and the investment manager structure. Although it would be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows, the trustee company recognises the constraints and costs in seeking to do so.

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 takes a degree of investment risk relative to the liabilities. This targets a greater return than the liability matching assets would provide whilst maintaining a prudent approach to meeting the scheme's liabilities.

The trustee company's willingness to take investment risk is dependent on the continuing financial strength of the employers and their willingness to bear the associated risk of contribution increases to the scheme, the funding position of the scheme and the scheme's cash-flow and liability profiles. The trustee company monitors these factors regularly with a view to altering the investment objectives, risk tolerance and/or return target as appropriate in the event of significant changes in any of the factors.

The overall investment risk to the scheme is diversified across a range of different investment opportunities, which are expected to provide excess return over time, commensurate with risk. The trustee company aims 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, recognising the desire of the employers to minimise the likelihood and magnitude of an increase in the scheme contribution rate.

The increasing allocation to risk-reducing assets has primarily been drawn from the allocation to developed market equities. Further incremental allocations may be driven by pre-set thresholds for improvements in the scheme funding level or other market-related triggers.

To reduce asset-liability risk and/or optimise the investment return for a given level of risk, the scheme may take on additional exposure to liability hedging assets without reducing its return-seeking assets. This could result in the economic value of the total assets exposure exceeding the net assets of the scheme. The trustee company's policy is to hedge back to Sterling an appropriate proportion of the developed market currency exposure.

The key risks, relevant to the investment strategy, identified by the trustee company are:

Risks	Definition, controls & mitigants
Asset-liability (matching risk)	Risk: the scheme's return-seeking assets do not achieve expected excess returns relative to liability-hedging assets. Controls & mitigants: diversify the return-seeking assets exposure. Increase the exposure to liability-hedging or liability-like assets, in physical or derivative form.
Currency	Risk: the scheme has large exposures to overseas assets, denominated in currencies which may fluctuate relative to Sterling, the currency of the scheme's liabilities. Controls & mitigants: monitor currency exposure. The trustee company's policy is to hedge back to Sterling an appropriate proportion of the developed market currency exposure.
Returns relative to strategic benchmark	Risk: actual returns may lag the strategic benchmark as a result of active management, costs or inability to access desired exposures. Controls & mitigants: focus on a properly resourced and organised investment operation. Considered use of external managers. Realistic assumptions regarding costs and implementation to be embedded in strategic benchmarking and planning for the scheme. Ongoing cost monitoring and regular investment performance monitoring.
Liquidity	Risk: the scheme may be unable to meet its obligations as they fall due. Controls & mitigants: monitor the amount of cash and other liquid instruments held and maintain robust and timely disinvestment procedures in order to ensure that all liabilities e.g. benefits, collateral, margin, expenses and other cash calls can be paid as they fall due.
Operational	Risk: loss or error arising from the failures of people, processes and systems, or disruption due to an external event. Controls & mitigants: operational risk is managed at all levels in the organisation as processes and controls pervade almost every activity. Key controls and mitigants include segregation of duties, organisational structures, authorisation routines, physical access, supervisory controls, personnel management, logical access and managerial oversight and review.
Sponsor	Risk: the sponsoring employers may be unable to provide future support to the scheme. Controls & mitigants: regular engagement with Universities UK and other bodies to ensure the trustee company can monitor the willingness and ability of the sponsoring employers to make contributions at a level necessary to fund the scheme's benefits.

7. Strategic asset allocation and the benchmark

The fund's strategic investment benchmark is reviewed periodically to ensure that it is appropriate for the circumstances and objectives of the scheme.

The target strategic asset allocation following the last review can be found in Annex four. The permitted ranges for each asset class are intended to ensure that the investment risk remains appropriate. The investment committee allows USS Investment Management Ltd to deviate tactically from the strategic asset allocation within certain specified limits. The investment committee may mandate USS Investment Management Ltd to adopt a dynamic asset allocation framework whereby the strategic asset allocation is altered based on changes in the scheme's funding ratio, the rate of return required to achieve the long-term objective and/or the ability to access assets expected to provide a more efficient and appropriate blend of long-term return and risk for the scheme.

8. Types of investment that may be held

Subject always to the relevant regulations, the scheme 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, as well as 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 using derivatives.

The trustee company believes that, over the long-term, returns on risk-free assets (e.g. UK gilts) will lag those on return-seeking assets, including non-government debt, publicly traded equities, property and investment in alternative asset classes and strategies. The investment management structure and asset allocation across an appropriately diversified blend of return-seeking and risk-free assets are intended to provide returns in excess of pure liability-hedging assets, while controlling the level of asset-liability risk.

Derivatives or other financial instruments may be used to hedge the scheme's liability risks (principally interest rate, inflation and longevity risks) or other risks (e.g. equity or currency risks).

9. Responsible investment

The trustee company aims to be an active and responsible long-term investor and steward of the assets and markets in which it invests. The trustee company expects this approach to both protect and enhance the value of the scheme's investments in the long-term.

The trustee company therefore requires its investment managers to integrate material extra-financial factors, including corporate, environmental, social, governance and ethical considerations, into 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, legal duties and other relevant commitments e.g. the UN backed Principles for Responsible Investment and the UK Stewardship Code.

Specifically, the trustee company has instructed USS Investment Management Ltd and called on its external investment managers to follow good practice themselves and to use their influence as major institutional investors to promote good practice in the investee companies and markets to which the fund is exposed.

The trustee company also expects all the scheme's investment managers to undertake appropriate monitoring of current and potential investments with regard to their policies and practices on material corporate, governance, social, ethical and environmental issues. These extra-financial factors should, where material, be taken into account when making investment decisions. Early identification can enable engagement with boards and management of investee companies to seek appropriate resolution of such problems. The trustee company tasks USS Investment Management Ltd to provide oversight of external managers in this respect.

The trustee company aims to use its voting rights as part of its engagement work, in a prioritised, value-adding and informed manner. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the trustee company expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The investment committee monitors this activity on an ongoing 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.

10. Money purchase Additional Voluntary Contribution assets

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

Annex 1: Glossary of terms

Absolute return strategies

The objective of absolute return strategies is absolute (positive) returns regardless of the direction of the relevant financial markets. To meet this objective, such strategies typically involve opportunistic long and short positions in selected instruments with zero or limited market exposure. In statistical terms, absolute return strategies should have very low correlation with the market return.

Alternative assets

Alternatives are investment products other than traditional investments of listed equity, stocks, bonds, cash or property. The term is used for financial or physical assets such as commodities, timberland, private equity, hedge funds or absolute return strategies, infrastructure and venture capital.

Benchmark

A yardstick against which the investment policy or performance of a fund manager can be compared, usually an index relating to the particular assets held.

Derivatives

A derivative is a financial instrument whose value is dependent on one or more underlying assets. In practice, it is a contract between two parties that specifies conditions (especially the dates, resulting values of the underlying variables, and notional amounts) under which payments are to be made between the parties. The most common types of derivatives are forwards, futures, options and swaps. The most common underlying assets include commodities, stocks, bonds, interest rates, currencies and related indices.

Dynamic asset allocation

An investment technique where the strategic asset allocation (SAA) can be changed in response to changes to factors such as market conditions and/or the scheme's funding ratio.

Equities

Equities represent the ordinary share capital of a limited company. They share in the distribution of corporate profits via the payment of dividends after interest has been paid to preference shareholders and other creditors. In the event of default, equity investors rank behind all other creditors to the company and carry the right to the residue of a company's assets after it has paid all its creditors. Public equities are traded on registered stock exchanges with transaction prices and volumes visible to all market participants. Private equity is traded directly with a counterparty and there is no obligation for transaction details to be disclosed.

Gilts

These are the simplest form of UK government bond. A conventional gilt is a bond issued by the UK government which pays the holder a fixed cash payment (or coupon) every six months until maturity, at which point the holder receives his final coupon payment and the return of the principal.

Government debt

A government debt obligation is backed by the credit and taxing power of a country, which for prudent and credit-worthy countries entails little risk of default. Government debt ('Treasury securities or 'gilts') include short-term bills, medium-term notes, and long-term bonds.

Index-linked gilts

UK government bond where the interest payments and the final redemption proceeds are linked to inflation – issues to date are linked to the Retail Price Index. Such gilts provide protection against inflation.

Index tracking

An investment technique where a portfolio or fund follows a particular stock market index as closely as possible. The value will go up and down in line with the index it is matching.

Infrastructure

Infrastructure is an alternative asset class where investments are made in the basic physical systems of a nation, whether in their equity or debt. Transportation, communication, sewage, water and electric systems are all examples of infrastructure. These systems tend to involve high-cost installations. However, they are vital to a country's economic development and prosperity. Investment in infrastructure assets is designed to provide stable income flows often linked to inflation.

Liability hedging assets

Liability hedging seeks to better align a pension fund's assets with its liabilities by hedging, in whole or in part, the fund's exposure to changes in the underlying drivers of liability valuation, in particular in interest rates and inflation.

Assets are chosen whose values move in the same way as the liabilities, typically by generating similar cash flows to the liabilities.

Historically, UK government bonds have been used by pension funds as a partial hedge for interest rate risks but recently derivatives, such as swaps, have also been used.

Money market instruments

Financial instruments with high liquidity and very short maturities. These instruments are a means for borrowing and lending in the short term, from several days to just under a year. Money market securities consist of negotiable certificates of deposit (CDs), bankers acceptances, Treasury bills, commercial paper, local government or municipal notes, federal funds and repurchase agreements (repos).

Money Purchase AVC (MP AVC)

A MP AVC is an arrangement for making additional contributions to build up a separate retirement fund. The contributions are invested through a separate insurance company and then used to buy an extra pension either at retirement, or later.

Non-Government debt

Non-government debt, debt issued by corporates, may be riskier and less liquid (readily tradeable) than the debt of credit-worthy governments. Short-term debt is issued as commercial paper; long-term debt is issued as bonds.

Performance fees

A fee charged by an investment manager where the amount payable is linked to the outperformance of the assets under management relative to an agreed benchmark. Performance fees are intended to create a strong alignment of interest between the investment manager and its client.

Private debt

Private debt covers the bonds or other debt instruments that are not readily tradeable on an investment exchange. Private debt issuance may be linked to private equity or may be private placements by public or other companies.

Private equity

Private equity is equity capital that is not quoted on a public exchange. Private equity consists of investors and funds that make investments directly into private companies or conduct buyouts of public companies that result in a delisting of public equity. Capital for private equity is raised from retail and institutional investors, and can be used to pursue operational and business strategy improvements, to fund new technologies, to expand working capital within an owned company, to make acquisitions, or to strengthen a balance sheet.

The majority of private equity consists of institutional investors and accredited investors who can commit large sums of money for long periods of time. Private equity investments often demand long holding periods to allow for a turnaround of a distressed company or a liquidity event such as an Initial Public Offering or sale to a public company.

Return-seeking assets

Assets chosen with long-term returns expected to exceed risk-free assets – which compensates for their exposure to greater risk. Equities are a return-seeking asset.

Risk-reducing assets

Assets held to reduce the amount of risk in the scheme's portfolio. Government bonds are an example of risk-reducing assets.

The expected return on risk-reducing assets is lower than that on return-seeking assets.

Strategic Asset Allocation (SAA)

SAA is a portfolio strategy that specifies the proportion of various asset classes in a portfolio designed to provide an appropriate risk/return profile over a longer period of time. A strategic asset allocation framework will specify a range of allocations appropriate for various levels of risk tolerance. For example, those with lower risk tolerance will tend to have lower exposure to more volatile, higher-risk assets such as stocks and commodities, and higher allocations to less volatile, lower-risk assets, including bonds and cash.

SAA involves periodically rebalancing the portfolio in order to maintain a long-term goal for asset allocation.

Annex 2: Investment beliefs

These investment beliefs are shared by the USS trustee board, investment committee and executive. They inform how we address investment and risk management for the scheme. These beliefs, the resulting investment policy and implementation process will evolve over time, along with the scheme's circumstances and experience. This document addresses the board's investment objectives, the trade-offs between return and risk, alignment of managers and cost-effective implementation.

About USS

USS is an open defined benefit pension scheme serving the higher education sector in the UK. The scheme has a strong covenant, liabilities stretching to the end of this century and positive net cash-flow from investment income and contributions. These features characterise USS as a long-term investor.

USS is one of the largest pension funds in the UK. Its size supports the governance and management resources to invest across a wide range of traditional and alternative assets and strategies. The bulk of the scheme's assets are managed internally, but external managers are used when it is not cost-effective or feasible for USS to provide the requisite standard or range of investment activities.

Aims

Our focus is on risk-adjusted returns after costs. We aim to:

- generate sufficient real returns to meet the scheme's liabilities with an affordable contribution rate
- limit and diversify investment risk, to maintain reasonably stable contribution rates.

These aims must be balanced against each other. A degree of mismatching between assets and liabilities is unavoidable as we balance affordability of the scheme against stability in the contribution rate. This asset-liability risk should be scaled to the scheme's changing circumstances and objectives, and should be reviewed as financial market valuations, return and risk prospects change.

Sources of returns and risk

Investment returns and risks can be split conceptually between those that are systematic (relating to structural properties of markets) and those that come from active management or 'idiosyncratic' returns.

Systematic risk and returns ('beta')

Risky and/or less liquid assets are normally priced so as to provide expected returns above those on risk-free assets – thus compensating investors for the danger of loss and inflexibility over particular periods. Accepting short-term volatility in returns or illiquidity can, therefore, help to achieve higher long-term returns.

The chief source of systematic investment returns is participation in economic growth, via equity markets or otherwise. In the long run, we expect equities to deliver an 'equity risk premium', materially outperforming cash and inflation. Other long-term sources of risk premia include credit, value, illiquidity, volatility and the provision of insurance. Bearing inflation or interest rate (duration) risk relative to liabilities may also be rewarded under certain circumstances – for example, when there is an imbalance between the supply and demand for long-dated inflation-linked bonds or for other liability hedging assets.

Skill-based returns ('alpha')

No investment market is efficient all the time, with the levels of efficiency varying across markets and time periods. Active management can therefore add incremental value. We aim to provide our active managers with appropriate flexibility to generate outperformance within suitable risk controls. Certain mandates may allow scope for leverage or short positions.

Financial markets, however, bring together the views and knowledge of all investors and traders – and beating the 'field' consistently is very hard. Over the long-term, success in investing requires building, sustaining and adhering to your competitive advantages – whether they are based on investment horizon, superior information and analysis, or portfolio construction. Active trading costs and fees erode the benefits of superior insight. Where it is particularly difficult or expensive to gain an 'edge', passive management may be the most cost-effective approach.

We believe asset prices and returns are driven ultimately by fundamentals, with asset prices tending eventually towards fair value. While the fundamentals themselves are not easy to understand or predict, large mispricing can occur in the context of market failures, investor sentiment and flows. Prospective returns from any asset are thus sensitive to current valuation levels. The ability to increase/reduce exposure to under/over-valued assets can be rewarding and reduce the risk of lasting underperformance.

USS as long-term investor: scope and constraints

As a long-term investor with the capacity to bear shorter-term underperformance, USS is relatively well placed to:

- harvest equity, credit, illiquidity and other systematic risk premia;
- position exposures according to its assessments of valuation across or within markets, avoiding or capitalising on short-term investment 'fads'.

In general, the probability of success in this endeavour increases with the investment time horizon: longer-term investors have more time to make money back if they suffer short-term losses. That said, it is not always easy to remain focused on the long term when the short term moves against you. It takes a good investment case, courage and a well-balanced approach to scaling risk exposures.

Moreover, shorter-term considerations cannot be ignored. The continuing support of sponsors, beneficiaries and regulators is required to sustain a long-term investment strategy. The risk-taking capacity of the scheme is thus limited by prudential considerations, stakeholder concerns and regulatory pressures related to scheme funding and periodic valuations. The fundamentals underlying risk-taking capacity include the strength of the funding ratio and covenant, the duration of liabilities, the maturity of the scheme, the scope for risk-sharing across beneficiaries and contributors, and the regulatory environment. The scheme monitors changes across these factors to ensure that its investment policy remains appropriate.

Diversification

Diversification across traditional and alternative assets and strategies helps to maintain investment returns while mitigating risk – supporting the objectives both for affordability (limiting required contributions by sustaining expected investment returns) and for safety (limiting potential increases in required contributions under adverse return scenarios).

The scheme has substantial diversification across geographies, asset classes and strategies. It allocates beyond global equities into fixed income, property and alternative assets and strategies, including private equity and debt, infrastructure, timber and absolute return funds.

The scope to diversify risk, however, has limits. Correlations across assets may rise over periods of time (particularly in difficult periods) and thus reduce the benefits of diversification. Furthermore, even a long-term investor must decide how much tolerance it has for the illiquidity that is inherent in some diversifying investments.

Hedging of asset-liability risk

In addition to risk mitigation via diversification, certain large exposures may be hedged, when this is possible at reasonable cost. For example, the scheme has a strategic hedging programme to reduce currency mismatches between its assets and liabilities. Furthermore, while no asset class perfectly matches the scheme's evolving liabilities, part of the scheme's asset allocation is to 'liability-hedging' or risk-reducing assets (inflation-linked gilts and government bonds).

Alignment and use of managers

The fund must manage its principal/agent issues through mutual understanding and the setting of aligned and appropriate incentives. These goals will often be supported within long-term relationships – which also serve to lower turnover and associated costs, as well as to enable managers to access illiquidity, value and other factors when these are expected to deliver excess returns over time.

The in-house management team is particularly well placed to deliver these requirements. It offers long-term commitment, continuity and comprehensive understanding of the scheme. It acts both as adviser to the scheme and as the 'preferred provider' of investment management in areas where this is cost-effective. It is not distracted or conflicted by asset-gathering or other commercial interests. It operates within the broad policies set and overseen by the board, its committees and independent advisers.

Performance incentives for the in-house team (and where possible for external managers) focus on long time-frames against specified objectives. This approach captures time-windows that are more meaningful for the scheme and is more likely to reward skill rather than short-lived luck.

While in-house management will often be less costly, 'right-cost' is more important than 'low-cost' to secure the required quality of investment management and operations. External managers are accessed as required, where specialised expertise is unavailable, uneconomic or cannot be developed in time internally. We take care to address agency issues as much as possible, to ensure alignment with the scheme's long-term objectives. In alternatives, particularly, we have developed our resources and skills in evaluating managers and have constructed a diversified programme of externally managed investments to meet our requirements, rather than building up the considerable resources needed for a direct investment programme.

Excessive turnover of managers or staff is costly in terms of time, expenses and portfolio transitions. Switching managers is viewed on a forward-looking basis, incorporating transition costs. We favour a model of 'managers for the long-term', with incentives aligned appropriately (where possible, on a risk-adjusted, after-costs and longer-term basis). Shorter-term monitoring of performance and activity focuses more on assessing the quality of the investment process than on immediate outcomes.

Responsible investment and stewardship

Across all asset classes, we seek to ensure that long-term opportunities and risks are identified and appropriately managed – including environmental, social and governance (ESG) factors. These factors should be integrated into the investment process for most effective implementation. ESG practices within investment vehicles or investee companies can be important influences on long-term returns and risks. Over the long-term, well managed companies should generate higher returns with less risk.

USS monitors and, when appropriate, engages and seeks to improve the governance of investment vehicles or investee companies. USS aims to ensure that they are run in the long-term interests of their investors or owners and that the full range of risk factors is considered. We seek similar vigilance and application in our external managers – their governance and stewardship activities are considered when their suitability for USS is assessed.

Risk budgeting and control

A risk budgeting approach is applied when allocating assets across managers and when setting scope for their discretion. This takes account of their different styles, skills and opportunity set. We aim to provide our active managers with appropriate flexibility to generate outperformance within suitable risk controls. Risk and performance are then monitored for consistency with targets or expectations.

Beyond asset allocation and active investment management risk, the scheme is exposed to a number of operational risks. These are covered in a risk register, covering all classes of risk to which the scheme is exposed and setting out the risk owners and mitigation policies for each risk item.

Annex 3: Equilibrium real returns

Asset class	Equilibrium real returns
Listed equities	5.25%
Private equity and debt	5.25% to 8.25%
Infrastructure	3.25% to 4.75%
Absolute return strategies	4.00% to 5.25%
Property	4.00%
Emerging market debt	3.25%
Investment grade non-government bonds	3.25%
UK index linked gilts	2.00%
UK long government bonds	2.25%

The expected returns are real returns relative to UK consumer price inflation ("CPI") and reflect the board's current understanding of the normal structure of capital market returns. These expected equilibrium returns reflect long-term norms, but are not forecasts based on current pricing of assets. At any point in time, market valuations may cause prospective returns to deviate from these equilibrium levels. The ranges shown for alternative asset classes are intended to reflect different potential 'flavours' (risk and return prospects) of underlying investments that may be used within a broad class. The prospective real returns for alternative asset classes are specific to the types and weightings of underlying investments that may be held in the portfolio.

Annex 4: Strategic asset allocation

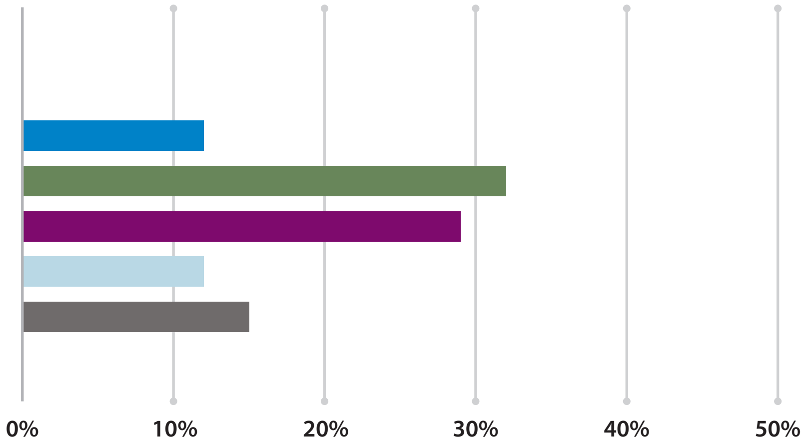
	Asset class	Strategic asset allocation
Bonds	**Overall**	**19.5%**
	Index linked gilts	4.5%
	Nominal government debt	10.0%
	Emerging markets	2.5%
	Investment grade non-govt.	2.5%
	Sub-investment grade	0%
Property		**9%**
Alternatives	**Overall**	**21.0%**
	Alternatives - infrastructure/timberland/other	7.0%
	Alternatives – absolute return strategies	6.0%
	Alternatives – private capital	8.0%
Equities	**Overall**	**50.5%**
	Equities – developed markets	42.0%
	Equities – emerging markets	8.5%

The table above shows the target strategic asset allocation or SAA at the time of preparing this Statement of Investment Principles. In practice the SAA will vary as the scheme may adopt a dynamic asset allocation framework for responding to changes in market conditions, its funding ratio, required rate of return and risk appetite.

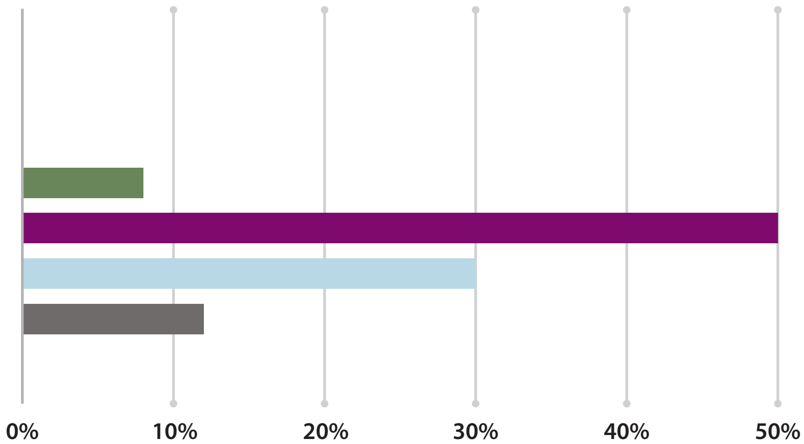
Membership statistics

Age profiles as at 31 March 2014

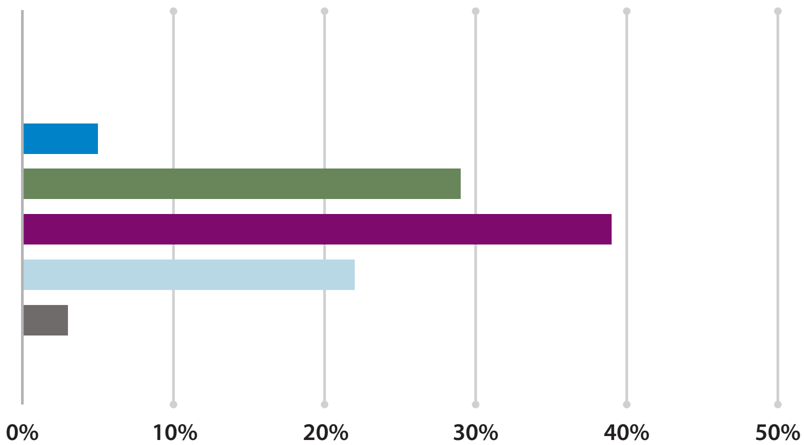
Actives	
30 & Under	12%
31 – 40	32%
41 – 50	29%
51 – 55	12%
56 & Over	15%
Total	100%



Pensioners	
50 & Under	Less than 1%
51 – 60	8%
61 – 70	50%
71 – 80	30%
81 & Over	12%
Total	100%



Deferred	
30 & Under	5%
31 – 40	29%
41 – 50	39%
51 – 60	24%
61 & Over	3%
Total	100%



Summary of movements

Details	University Institutions	Non-University Institutions	Totals
Total active members at 1 April 2013	142,957	5,509	148,466
New Members	29,938	1,117	31,055
Retirements	–		
– Incapacity	(100)	(6)	(106)
– Normal, early & late retirement	(2,015)	(123)	(2,138)
Deaths In Service	(65)	(2)	(67)
Leavers and withdrawals			
– Refunds	(827)	(103)	(930)
– Deferred/undecided	(12,602)	(611)	(13,213)
– Retrospective*	(8,665)	(283)	(8,948)
Total members at 31 March 2014	**148,621**	**5,498**	**154,119**

*Retrospective withdrawals are members who withdrew from USS within three months of joining the scheme with retrospective effective to the date membership commenced. This includes members who were auto-enrolled but elected to opt-out immediately.

There are 49,104 active members of the Career Revalued Benefits (CRB) Section.

Pensioner Members	University Institutions	Non-University Institutions	Totals
Total members at 1 April 2013	53,968	1,651	55,619
Mergers	0	0	0
New Pensioners	3,807	196	4,003
Deaths	(1,692)	(62)	(1,754)
Total pensioners at 31 March 2014	**56,083**	**1,785**	**57,868**

In addition at 31 March 2014, there were 11,247 pensions being paid to beneficiaries of which 944 were annuities paid to dependent children.

Deferred pensioners not yet receiving a pension totalled	**104,453**

Pension sharing on divorce
At 31 March 2014, 621 individuals have benefits within the scheme in their own right as a result of pension sharing, of whom 194 are now in receipt of their pension and are included in the pensioner member summary above.

Number of members who hold two or more separate employments which are pensionable under USS as at 31 March 2014	**2,403**

Scheme membership

There are two sections of USS; the Final Salary section and the Career Revalued Benefits section and all benefits are paid out of a common asset pool.

Membership table

	31/03/2010	31/03/2011	31/03/2012	31/03/2013	31/03/2014
Pensioners	46,268	49,251	52,910	55,619	57,868
Deferred	83,201	88,370	93,951	98,975	104,453
Active	137,932	139,931	141,093	148,466	154,119
Total	267,401	277,552	287,954	303,060	316,440
Growth on previous year	+4.85%	+3.80%	+3.75%	+5.25%	+4.41%

Universities Superannuation Scheme Accounts

Fund Account
for the year ended 31 March 2014

	Note	2014 £m	2013 £m
Contributions and benefits			
Contributions receivable	3	1,672.5	1,539.6
Premature retirement scheme receipts		7.8	8.2
Transfers in	4	106.6	96.0
		1,786.9	1,643.8
Benefits payable	5	1,508.7	1,408.8
Payments on account of leavers	6	54.1	31.7
Administration costs	7	25.9	21.5
		1,588.7	1,462.0
Net additions from dealings with members		198.2	181.8
Returns on investment			
Investment income	8	1,017.2	1,045.8
Change in market value of investments	9	1,858.7	3,588.6
Investment management costs	10	(57.5)	(51.2)
Net returns on investments		2,818.4	4,583.2
Net increase in the fund during the year		3,016.6	4,765.0
Fund at start of the year		38,999.9	34,234.9
Fund at end of year		42,016.5	38,999.9

The notes on pages 53 to 69 form part of these financial statements.

Statement of Net Assets as at 31 March 2014

	Note	2014 £m	2013 £m
Investment Assets			
Securities	13	29,347.3	26,518.1
Pooled investment vehicles securities	14	7,619.7	7,162.8
Pooled investment vehicles property	14	892.6	834.9
Derivatives	15	629.3	607.4
Property	17	1,814.5	1,652.0
Cash and cash equivalents		1,783.6	1,616.1
Money purchase AVC investments		411.9	389.8
Other investment balances	18	632.8	421.7
		43,131.7	39,202.8
Investment Liabilities			
Derivatives	15	(104.6)	(139.8)
Other investment balances	19	(1,099.2)	(217.8)
		(1,203.8)	(357.6)
Net investments assets		41,927.9	38,845.2
Current assets	20	211.0	251.0
Current liabilities	21	(122.4)	(96.3)
Total net assets, representing the fund balance		42,016.5	38,999.9

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the summary of the scheme's funding position and certificate of technical provisions on pages 74 to 79 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 51 to 52 were approved by the trustee, Universities Superannuation Scheme Ltd, on 17 July 2014 and were signed on its behalf by:

Sir Martin Harris
Chairman

Bill Galvin
Chief Executive

The notes on pages 53 to 69 form part of these financial statements.

Notes to the Financial Statements for the year ended 31 March 2014

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)".

The trustee company Universities Superannuation Scheme Ltd 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 scheme's financial statements 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 Ltd, Mr I M Sherlock, at Royal Liver Building, Liverpool L3 1PY.

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.

Where members can choose whether to take their retirement benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis from the later of the retirement date and the date the scheme is advised of the member's choice. Other benefits are accounted for on the date of retirement or death as appropriate.

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, on a straight line basis over the periods of the lease;

(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.

Administration and investment management expenses

Administration and investment management expenses represent the costs incurred by the trustee company in managing and administering the scheme. These costs are recharged to the scheme in accordance with its rules.

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 statement of net assets 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 fair value at the year end.

(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 equities (including private equity and infrastructure direct investments) – at fair value using appropriate valuation techniques. Significant direct investments are valued by independent valuation experts, adjusted for any cash flows since valuation. Co-investments are valued internally based on the investment partners' independent valuations, which are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, and are subject to independent internal review;

(d) Private debt – at fair value or amortised cost using the effective interest method;

(e) 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 (January 2014). The properties have been valued by an independent external valuer, CB Richard Ellis Ltd;

(f) Pooled investment vehicles – unit trusts and managed funds – at unit prices or values based on the market valuation of the underlying assets; private equity funds – at the latest available cashflow adjusted valuations prepared in accordance with the International Private Equity and Venture Capital Guidelines; hedge funds – at fair value based on published prices;

(g) 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, which is the current value of future expected net cash flows arising from the swap, taking into account the time value of money.

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

	2014 £m	2013 £m
Main section		
Employers' contributions	1,075.6	982.9
Employers' salary sacrifice contributions	391.8	356.6
Members' basic contributions	70.4	70.6
Members' additional voluntary contributions	49.5	49.7
	1,587.3	1,459.8
Supplementary section		
Supplementary section contributions	23.1	22.3
Money purchase AVCs		
Members' additional voluntary contributions	62.1	57.5
	1,672.5	1,539.6

The scheme offers two AVC facilities:

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

A money purchase additional voluntary contribution facility is administered by the Prudential Assurance Company Ltd.

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

	2014 £m	2013 £m
Individual transfers in	101.3	89.1
Group transfers in	5.3	6.9
	106.6	96.0

5 Benefits payable

	2014 £m	2013 £m
Main section		
Pensions	1,189.8	1,128.4
Lump sums on or after retirement	288.7	250.6
Lump sums on death in service	12.8	14.3
	1,491.3	1,393.3
Supplementary section		
Pensions	13.2	12.7
Lump sums on or after retirement	–	–
Lump sums on death in service	1.5	1.9
	14.7	14.6
Money purchase AVCs		
Pensions	53.9	46.0
Lump sum death benefits	0.6	0.4
Transferred to USS	(51.8)	(45.5)
	2.7	0.9
	1,508.7	1,408.8

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

	2014 £m	2013 £m
Individual transfers to other schemes	51.2	29.8
Payments for members joining state scheme	0.6	0.7
Refunds to members leaving service	2.3	1.2
	54.1	31.7

7 Administration costs

	2014 £m	2013 £m
Personnel costs	12.9	11.1
Pensions Protection Fund levies	3.2	3.5
Premises costs	1.0	1.1
Other costs	8.8	5.8
	25.9	21.5

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 Ltd: Registered No. 01167127).

8 Investment income

	2014 £m	2013 £m
Dividends from UK equities	152.6	208.5
Net property income	100.8	103.1
Income from pooled investment vehicles	160.6	89.7
Dividends from overseas equities	317.9	353.8
Income from UK fixed interest securities	135.1	86.6
Income from overseas fixed interest securities	147.8	102.8
Interest on cash deposits	10.2	33.8
Interest from money purchase AVCs	0.3	0.3
Other income	6.8	82.2
	1,032.1	1,060.8
Irrecoverable withholding tax	(14.9)	(15.0)
	1,017.2	1,045.8

9 Change in market value of investments

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

	Market value 2013	Purchases and derivative payments during the year at cost	Proceeds of sales and derivative receipts during the year	Changes in value during the year	Market value 2014
	£m	£m	£m	£m	£m
Securities	26,518.1	15,795.1	(13,122.3)	156.4	29,347.3
Pooled investment vehicles-securities	7,162.8	2,358.1	(2,018.0)	116.8	7,619.7
Pooled investment vehicles-property	834.9	38.6	(0.4)	19.5	892.6
Derivatives	467.6	98,796.3	(100,233.3)	1,494.1	524.7
Property	1,652.0	48.4	(71.8)	185.9	1,814.5
Money purchase AVC investments	389.8	63.0	(55.9)	15.0	411.9
Cash and cash equivalents	1,616.1	296.5	–	(129.0)	1,783.6
	38,641.3	117,396.0	(115,501.7)	1,858.7	42,394.3
Other investment balances	203.9				(466.4)
Total	38,845.2				41,927.9

Changes in the value of investments comprise both realised gains/(losses) on investments sold during the year and unrealised gains/(losses) on investments held at the year end. Included in the amount for derivatives are realised and unrealised gains of £1,195.3m 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 £18.5m (2013: £19.4m). 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.

The 2014 securities balance includes £54.9m (2013: £81.0m), and the pooled investment vehicles balance includes £31.2m (2013: £nil), of holdings in entities with underlying trade which the scheme controls. These trading entities generated £53.4m (2013: £25.8m) of revenue in aggregate, with £53.1m (2013: £17.8m) of operating expenses and hence £0.3m (2013: £8m) of gross profit. USS's share of the distributed gross profit has been included within income from pooled investment vehicles in note 8. As noted in the basis of preparation in note 1, they have not been consolidated in the scheme's accounts on the grounds of materiality.

Within cash and cash equivalents there is £1,511.8m (2013 £1,509.3m) of liquidity funds and £271.8m (2013: £106.8m) of direct cash deposits.

10 Investment management costs

	2014 £m	2013 £m
Investment costs		
Securities research costs	9.1	9.0
Securities management		
– External manager base fees	5.4	3.4
– External manager performance fees	–	–
– Professional fees	1.8	2.1
	16.3	14.5
Property management		
– External manager fees	1.8	2.0
– External manager performance fees	1.4	0.2
– Rent review and letting fees	1.6	0.8
– Other	0.2	0.1
	5.0	3.1
Legal and professional fees	1.3	2.3
Custodial services	2.0	1.8
	24.6	21.7
Other costs		
Personnel costs	22.3	19.4
Premises costs	2.5	2.6
Sundry costs	8.1	7.5
	32.9	29.5
	57.5	51.2

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 USS Investment Management Ltd (prior to 1 October 2012, the London Investment Office) and the costs of management and agency services rendered by third parties.

11 Supplementary information in respect of personnel costs

	2014 £m	2013 £m
Personnel costs		
Included in administration costs	12.9	11.2
Included in investment management costs	22.3	19.4
	35.2	30.6

	2014 £m	2013 £m
Analysed as:		
Wages and salaries	25.0	22.7
Pension costs	3.7	3.3
Social security costs	2.6	2.2
Other	3.9	2.4
	35.2	30.6

Mr Bill Galvin was appointed as the Group Chief Executive Officer with effect from 1 August 2013. Included in the above are the emoluments of Mr Galvin comprising salary and benefits amounting to £309,000. Mr Galvin is also a member of the career revalued benefits section of the scheme and at 31 March 2014 his accrued pension was £3,000. Mr Galvin is eligible to participate in an individual three year long term incentive plan which will comprise of an annual maximum amount of £100,000 which will be entirely related to performance and the achievement of set objectives.

Universities Superannuation Scheme Ltd 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 benefit package, some staff participate in incentive schemes. The main plans relate to USS Investment Management Ltd. 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. Investment performance is measured against the relevant benchmark over two and five year timeframes. Included within wages and salaries is £7,128,000 (2013: £6,666,000) in respect of USS Investment Management Ltd 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. For the 2013 plan, the award will have phased vesting of one third of the annual value in each of years three, four and five, at which point the appropriate payment will be made. A provision of £1,000,000 has been made as at 31 March 2014 in respect of the 2011 and 2013 plans. All incentive plans are reviewed and approved by the remuneration committee on an annual basis.

The aggregate amount of compensation payable for loss of office to employees during the year was £1.3m (2013: £0.5m) of which £1.1m (2013: £nil) was payable to employees whose remuneration exceeded £100,000 during the year.

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:

	2014	2013
£100,001-£110,000	3	7
£110,001-£120,000	8	8
£120,001-£130,000	4	3
£130,001-£140,000	3	6
£140,001-£150,000	5	3
£150,001-£160,000	6	5
£160,001-£170,000	4	4
£170,001-£180,000	5	4
£180,001-£190,000	1	2
£190,001-£200,000	5	2
£200,001-£210,000	2	4
£210,001-£220,000	2	1
£220,001-£230,000	3	0
£230,001-£240,000	1	2
£240,001-£250,000	1	0
£250,001-£260,000	0	2
£270,001-£280,000	2	1
£280,001-£290,000	3	0
£290,001-£300,000	1	0
£300,001-£310,000	1	1
£310,001-£320,000	0	1
£320,001-£330,000	0	1
£330,001-£340,000	1	0
£360,001-£370,000	1	0
£420,001-£430,000	1	0
£450,001-£460,000	0	1
£600,001-£610,000	0	1
£900,001-£910,000	1	0

Figures for both 2013 and 2014 include remuneration earned in those years, irrespective of when it may be paid.

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

	2014 £m	2013 £m
Quoted		
UK equities	4,218.3	5,920.2
Overseas equities	12,323.4	12,121.1
UK fixed interest - public sector	5,044.9	3,451.5
UK index linked - public sector	3,306.7	1,813.3
UK fixed interest - other	330.7	271.3
Overseas fixed interest - public sector	1,348.6	1,785.3
Overseas index linked - public sector	784.3	142.1
Overseas fixed interest - other	439.3	231.0
Unquoted		
UK equities	679.3	18.0
Overseas equities	451.4	440.8
UK fixed interest - other	331.2	240.8
Overseas fixed interest - other	89.2	82.7
	29,347.3	26,518.1

14 Pooled investment vehicles

	2014 £m	2013 £m
Securities		
Managed funds and limited partnerships	6,904.2	6,652.3
Unit trusts	715.5	–
Insurance policies	–	510.5
	7,619.7	7,162.8
Property		
Unit trusts	477.8	440.1
Property companies	27.7	20.9
Limited partnerships	387.1	373.9
	892.6	834.9
	8,512.3	7,997.7

Included within pooled investment vehicles is £5,510.8m (2013: £5,053.5m) where the company operating vehicle is registered overseas. For the remainder, the company operating the vehicle is registered in the UK.

15 Derivative contracts

		2014 £m	2013 £m
Assets			
Options	16 (a)	0.7	0.4
Futures contracts	16 (b)	106.4	32.2
Swaps	16 (c)	418.3	473.3
Forward foreign exchange contracts	16 (d)	103.9	101.5
		629.3	607.4
Liabilities			
Options	16 (a)	(4.6)	(1.3)
Futures contracts	16 (b)	(20.7)	(41.1)
Swaps	16 (c)	(11.3)	(1.3)
Forward foreign exchange contracts	16 (d)	(68.0)	(96.1)
		(104.6)	(139.8)

Objectives and policies

The trustee has authorised the use of derivatives by the investment managers in accordance with the investment guidelines for each mandate. Investment in derivative instruments is only permitted for the purposes of:

(a) Contributing to a reduction of risks;

(b) Facilitating efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).

Processes and controls are in place to ensure risk exposures to a single counterparty and to other derivative operations are maintained within acceptable levels.

The main objectives for the use of derivatives are summarised as follows:

(i) Protection
Derivatives may be used as part of the permitted instrument types available to managers to protect (or enhance) active returns relative to the specified strategic benchmarks, for example, through the use of options and credit default swaps.

(ii) Modify exposure to asset classes
Derivatives 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 physical assets. They may also be easier to trade than conventional stocks, particularly in large amounts.

(iii) Hedging
Forward currency contracts are used 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. Derivatives may also be used for the purpose of hedging risk exposures affecting future scheme liabilities, for example, through the use of inflation and interest rate swaps.

(iv) Replication
Derivatives are used where liquidity or funding for generating a relevant investment exposure is perceived to be more efficient in derivatives, rather than the underlying physical assets.

A fully funded swap has been entered into in order to obtain the return on an emerging markets local currency sovereign bond index without the requirement to physically hold all its constituent securities. This fully funded swap is the bond total return swap disclosed in note 16(c).

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 2014. These valuations will not necessarily reflect the fair values that will be realised on maturity or sale of the various investments.

a) Options

Type of Option	Notional amount of outstanding contracts £m	Asset £m	Liability £m
Euro Stoxx 50 Index Options (exchange traded)	10.0	0.7	–
FX Options (OTC)	179.9	–	(4.6)
	189.9	0.7	(4.6)

The notional amount of outstanding contracts represents the value of underlying stock protected by the options. The Euro Stoxx 50 Index options have expiry dates of up to one year and nine months after the year end. The FX options have expiry dates of one year after the year end.

b) Futures (exchange traded)

Type of future	Economic exposure £m	Asset £m	Liability £m
UK equities	1,213.8	7.1	(0.2)
Overseas equities	2,643.4	69.5	(9.7)
UK fixed interest	1,087.0	1.6	(1.2)
Overseas fixed interest	2,657.1	10.4	(7.8)
Commodities	363.6	17.8	(1.8)
	7,964.9	106.4	(20.7)

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, except for certain Euro Stoxx 50 dividend futures which have expiry dates of up to five years and nine months after the year end with a total economic exposure of £1.3m and a net value of £0.1m.

c) Swaps (OTC)

Type of Option	Expiration	Nature of Swap	Notional principal £m	Asset £m	Liability £m
Bond Total Return	4 months	CS EM Bond Index	423.8	408.5	–
Equity Total Return	6 months	DB Index for LIBOR plus spread	189.5	2.3	–
Interest Rate	10 months - 29 years	Fixed for Floating and Floating for Fixed	513.8	7.3	(3.3)
Dividend Swap	1 - 11 years	S&P 500 Index	276.7	–	(6.5)
Credit Default	2 - 6 years	ITRAXX Europe and single entity	90.9	0.2	(1.5)
			1,494.7	418.3	(11.3)

d) Forward foreign exchange (OTC)

Currency bought	Currency sold	Notional Principal £m	Asset £m	Liability £m
EUR	AUD	141.5	–	(4.6)
EUR	JPY	141.0	1.2	–
EUR	USD	33.3	0.2	–
EUR	OTHER	16.5	–	–
GBP	AUD	752.8	–	(20.4)
GBP	CAD	116.0	2.2	(0.1)
GBP	CHF	424.1	–	(2.7)
GBP	EUR	2,534.7	15.1	(1.3)
GBP	JPY	759.8	8.2	–
GBP	USD	6,615.0	39.1	(1.8)
GBP	HKD	100.2	–	(0.2)
GBP	SEK	110.4	1.5	–
GBP	OTHER	143.7	0.2	(0.4)
JPY	AUD	22.5	–	(0.2)
JPY	GBP	18.4	–	–
JPY	USD	16.8	–	(0.2)
USD	AUD	17.5	–	(0.2)
USD	CAD	44.7	–	(0.2)
USD	CHF	290.0	–	(7.4)
USD	EUR	120.3	0.1	(1.1)
USD	GBP	117.7	–	(2.2)
USD	JPY	182.1	–	(2.9)
USD	SGD	79.4	–	(0.7)
USD	BRL	110.0	–	(4.9)
USD	NZD	112.2	–	(7.1)
USD	OTHER	154.0	5.4	(1.5)
TRY	USD	54.9	4.0	–
ZAR	USD	55.6	2.7	–
BRL	USD	84.2	3.4	–
RUB	USD	87.2	0.7	(2.5)
IDR	USD	109.7	4.8	–
MXN	USD	166.3	3.5	–
INR	USD	198.6	8.5	(0.1)
OTHER	AUD	141.7	–	(4.3)

d) Forward foreign exchange (OTC) (Continued)

OTHER	EUR	203.2	0.1	(0.2)
OTHER	GBP	14.1	–	–
OTHER	JPY	308.0	1.5	(0.3)
OTHER	USD	212.9	1.5	(0.5)
		14,811.0	103.9	(68.0)

Other currency relates to a number of smaller contracts in denominations not disclosed above.

All of the above contracts settle within one year.

17 Property

	2014 £m	2013 £m
UK completed properties	1,806.5	1,644.2
UK developments in progress	8.0	7.8
	1,814.5	1,652.0
Properties analysed by type:		
Freehold	1,499.4	1,372.1
Leasehold	315.1	279.9
	1,814.5	1,652.0

The completed properties and developments in progress have been valued on the basis of market value as at 31 March 2014 and 31 March 2013 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 (January 2014).

18 Other investment balances (assets)

	2014 £m	2013 £m
Amount due from stockbrokers	87.3	187.8
Dividends and accrued interest	153.4	146.5
Margin balances	392.1	87.4
	632.8	421.7

19 Other investment balances (liabilities)

	2014 £m	2013 £m
Amount due to stockbrokers	(82.4)	(174.9)
Margin balances	(411.9)	(42.9)
Repurchase agreements	(604.2)	–
Accrued interest	(0.7)	–
	(1,099.2)	(217.8)

20 Current assets

	2014 £m	2013 £m
Contributions due from institutions:		
– employers' contributions	91.8	91.5
– members' basic contributions	40.6	34.1
– members' additional voluntary contributions	3.9	3.6
Other debtors	30.8	47.0
Cash at bank and in hand	43.9	74.8
	211.0	251.0

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

21 Current liabilities

	2014 £m	2013 £m
Rents & service charges received in advance	(55.9)	(42.1)
Amount due on property purchases	(1.8)	(1.5)
Benefits payable	(48.3)	(41.0)
Taxation creditor	(3.1)	(4.6)
Other creditors	(4.9)	(1.8)
Due to trustee company	(8.4)	(5.3)
	(122.4)	(96.3)

22 Securities on loan

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

	2014 £m	2013 £m
Value of stock on loan at 31 March		
Equities	1,083.0	745.4
Fixed interest	335.5	480.1
	1,418.5	1,225.5
Value of collateral held at 31 March	1,495.7	1,308.0

23 Financial commitments

	2014 £m	2013 £m
Property		
Contracts placed but not provided for	12.0	16.1
Pooled investment vehicles - securities		
Outstanding commitments to private equity partnerships	2,397.2	2,754.9

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

24 Self investment

The scheme had no employer related investments during the year.

25 Contingent liability

After the balance sheet date the scheme issued legal proceedings relating to one of its investments. The events to which the proceedings relate occurred wholly before the balance sheet date. Should the outcome of the proceedings be unfavourable, the scheme would be liable to incur a proportion of the defendant's legal costs. No provision has been made in these financial statements for these costs. The timing of the resolution of the action is unknown.

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 3 of the trustee company accounts, and investment management services to the scheme, charging £25.9 million and £57.5 million respectively (2013: £21.6 million and £51.2 million), with a balance due from the scheme of £8.4 million as at 31 March 2014 (2013: £5.4 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. Where applicable those directors contribute to and benefit from the scheme on the same terms as other members.

Statements 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, 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".

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 certain other information about the scheme in the form of the annual report.

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 on page 71.

The trustee is responsible for the maintenance and integrity of the financial information of the scheme included on the scheme's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The trustee also 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 17 July 2014.

Sir Martin Harris
Chairman

Bill Galvin
Chief Executive

Statements 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 monitoring whether contributions are made to the scheme in accordance with the schedule of contributions. Where breaches of the schedule occur, the trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

Trustee's summary of contributions payable under the schedule in respect of the scheme year ended 31 March 2014

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 2013 to 31 March 2014 under the schedule of contributions certified by the actuary on 15 June 2012. The scheme auditor reports on contributions payable under the schedule in their auditor's statement about contributions.

Contributions payable under the schedule in respect of the scheme year

Employer	**£m**
Normal contributions	1,450.1
Salary sacrifice contributions	–
Special contributions	0.2
Additional contributions	25.0
Member	**£m**
Normal contributions	93.5
Additional contributions	0.0
Contributions payable under the schedule (as reported on by the scheme auditor)	**1,568.8**

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	1,568.8
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)	111.6
Total contributions (including premature retirement scheme receipts) reported in the financial statements	**1,680.4**

Signed on behalf of the trustee on 17 July 2014

Sir Martin Harris
Chairman

Bill Galvin
Chief Executive

Independent Auditor's Report to the trustee of Universities Superannuation Scheme

We have audited the financial statements of Universities Superannuation Scheme for the year ended 31 March 2014 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the scheme's trustee 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 scheme and the scheme's trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the trustee's Responsibilities Statement on page 70, the scheme's trustee is responsible for the preparation of financial statements which show 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustee and the overall presentation of the financial statements. In addition, we read all the financial and nonfinancial information in the rest of the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the scheme during the year ended 31 March 2014, 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 United Kingdom 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.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants, Manchester 17 July 2014

Independent Auditor's Statement about Contributions to the trustee of Universities Superannuation Scheme Ltd

We have examined the Summary of Contributions to the Universities Superannuation Scheme in respect of the scheme year ended 31 March 2014 which is set out on page 71.

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

Respective responsibilities of trustees and the auditor

As explained more fully in the trustee's Responsibilities Statement on page 70, the scheme's trustee are 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 the 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 Summary of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes 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 2014 as reported in the Summary of Contributions and payable under the Schedule of Contributions have, in all material respects, been paid at least in accordance with the Schedule of Contributions certified by the scheme Actuary on 15 June 2012.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants, Manchester 17 July 2014

Summary of the Scheme’s Funding Position

Summary of the Scheme's Funding Position as at 31 March 2014

Overview

Each year the trustee company issues to scheme members a summary of the scheme's funding position in the form of a Summary Funding Statement. This statement provides an update on how the scheme's assets compare with the value of the scheme's liabilities, the latter being the amount needed to pay current and future pensions and other benefits, given prevailing market conditions.

This year a formal valuation is being carried out as at 31 March 2014, which happens once every three years, and work is well under way to complete this in-depth review of scheme funding. The process involves detailed consideration by the trustee board, supported by specialist advisers, 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.

As this work is not yet complete the trustee cannot present a final position for the 2014 valuation at this stage (it will be completed early in 2015). However, the trustee has provided an assessment below using the assumptions used to deliver the 2011 actuarial valuation, updated for current market conditions. It is both the view of the trustee board and the scheme actuary that this figure will change as the trustee board reviews the underlying assumptions and implements revisions to the funding approach as part of its three-yearly formal assessment. As the formal review is completed, the assumptions will be updated and the funding position recalculated. Members will receive a formal update once the valuation process is complete.

How does USS work?

USS provides a defined set of benefits as set out in the scheme rules. The financing of these benefits is provided by the 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 and/or their dependants now and in the future, as well as the operating costs for the scheme.

How is the financial position of the scheme measured?

The most common way to measure the scheme's financial position is to compare the current value of the assets of the fund with an estimate of the current value of the scheme's liabilities. The scheme's liabilities are the total value of all the benefits that members have accrued to date and which are paid now and in the future.

The current value of the scheme's assets is relatively easy to determine at a particular point in time, using their present market value. There are however uncertainties inherent in estimating the current value of accrued liabilities, for example, for how long a future pension might be paid, the possibility that a survivor's benefit might be paid and at what level, as well as the rate of return on future investments. This last factor is used to determine the size of the funds that would be required today to enable the scheme to meet in full the benefits already accrued by scheme members.

The trustee board carries out an in-depth review of the scheme's finances every three years; this is known as the actuarial valuation and was last compiled as at 31 March 2011. 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 reflects the trustee board's prudent, ongoing approach to funding the scheme, and is used to determine the current funding level and, where appropriate, the extent of any deficit or surplus. The buy-out basis is based on the assumption that the scheme is being wound-up and all of the liabilities of the scheme are to be secured through an insurance company. USS is required by law to publish this buy-out funding information even though neither the trustee board nor the scheme's stakeholders have any plans to wind-up the scheme. This same approach will be used to complete this year's actuarial valuation.

What was the position at the last full actuarial valuation?

The latest full valuation, as at 31 March 2011, calculated that the funding level was 92% on a technical provisions basis and 57% on a buy-out basis.

How has the position of the scheme changed since then?

At March 2012 the actuarial report showed the funding level of the scheme on a technical provisions basis had fallen to 77% due to a large increase in the value of the liabilities, primarily due to the fall in gilt yields, although this increase was partially offset by higher than expected investment return. The funding position on a buy-out basis fell to 50%.

During the year to 31 March 2013 the assets of the fund increased by £4.7 billion, which equated to a 13.9% increase. At the same time further reductions in gilt yields meant that the value placed on the scheme's liabilities also increased substantially in the year (by £6.4 billion, an increase of 14.6%). The funding ratio remained unchanged at 77%, albeit the deficit was larger in absolute terms at £11.5 billion. The funding position on a buy-out basis was 51%, which was a slight improvement on the 2012 figure.

Using the same base assumptions as the trustee board adopted at the last formal valuation in 2011, updated for market conditions, the latest funding deficit as at 31 March 2014 is estimated to be in the region of £7 billion representing an overall funding ratio of assets to liabilities of approximately 85%. However, as mentioned above this represents an estimated position based on the unadjusted 2011 assumptions (which are subject to review).

The funding ratio over the period since the last actuarial valuation is summarised in the table below:

	Actuarial valuation as at March 2011	March 2012 actuarial report	March 2013 actuarial report	March 2014 actuarial report
Assets	£32.4bn	£33.9bn	£38.6bn	£41.6bn
Value placed on scheme liabilities	£35.3bn	£43.7bn	£50.1bn	£48.8bn
Deficit	£2.9bn	£9.8bn	£11.5bn	£7.2bn
Funding Ratio	92%	77%	77%	85%

The figures shown above for the value of the scheme's liabilities (the value at a point in time of the pensions and other benefits payable to current and future beneficiaries) are calculated on an ongoing basis, which assumes that the scheme will continue into the future and that the employers and members will continue to make contributions.

What is the trustee board's funding plan?

Following the 2011 valuation the trustee board implemented a deficit recovery plan over a period of ten years in consultation with employers, and after engagement with the University and College Union (UCU). There are two components to this recovery plan; the payment of contributions in excess of the value of accruing benefits, and the assumption that the scheme's investments will deliver a return approximately 0.5% per annum greater than the assumption made in the triennial valuation. The first component involves the employers making payments in the first six years of the recovery plan period at 16% of salaries, which is broadly 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 required to review and consult with employers regarding the contributions payable to the scheme following each actuarial valuation. It is likely that once the 2014 actuarial valuation is complete the fund will report a deficit which is substantially greater than the deficit reported as at 31 March 2011 and the recovery plan will need to be updated.

Additional information

Although this statement is not a formal Summary Funding Statement the legal disclosure requirements have been followed for consistency and are provided below.

Pension Protection Fund

The government established the Pension Protection Fund (PPF) to provide benefits in the event that a scheme's sponsoring employer (or employers) becomes insolvent without there being sufficient funds available in the scheme. USS is recognised by the PPF as a last-man standing scheme, which means that it would only become eligible for the PPF in the extremely unlikely event that the vast majority (if not all) of the scheme's employers were to become insolvent.

If such circumstances were ever to occur, benefits would be payable to members from the PPF, but they might be less than the full benefit earned in USS. The precise amount would depend on the member's age, when the pension benefits were earned and the amount of the benefits overall.

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

Statutory Statement

There has been no payment out of the fund's assets over the period from April 2013 to March 2014 to the scheme's sponsoring employers, nor has this happened previously. There has been no intervention from the Pensions Regulator to use its powers to modify the scheme or to impose a direction or schedule of contributions.

Where can you get more information?

If you would like to find out more about USS, please contact the person at your employer who deals with USS matters, or alternatively visit the USS website at **www.uss.co.uk**. You can also contact USS's Liverpool office at **Universities Superannuation Scheme Ltd, Royal Liver Building, Liverpool, L3 1PY**.

Additional documents available on the USS website or on request

Statement of Investment Principles
This explains how we invest the money paid into, and manage the investments held by, the scheme.

Statement of Funding Principles
This sets out the policies of the trustee board for ensuring funding objectives are met.

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. A new schedule of contributions will be issued following the 2014 actuarial valuation.

Report and Accounts for prior years
This shows the scheme's income and expenditure, and historic details regarding the scheme and the trustee company.

Actuarial report as at 31 March 2013
This contains the details of the trustee board's review of the scheme's financial position as at 31 March 2013, using the assumptions decided upon for the March 2011 valuation.

Actuarial report as at 31 March 2012
This contains the details of the trustee board's review of the scheme's financial position as at 31 March 2012, using the assumptions decided upon for the March 2011 valuation.

Actuarial Valuation as at 31 March 2011
This contains the details of the trustee board's review of the scheme's financial position as at 31 March 2011.

Certificate of Technical Provisions

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

Certificate of Schedule of Contributions

Certificate of Schedule of Contributions

SCHEDULE OF CONTRIBUTIONS

CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Name of Scheme	Universities Superannuation Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2011 to be met by the end of the period specified in the recovery plan dated 15 June 2012.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 15 June 2012.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

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

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Universities Superannuation Scheme Limited Accounts

Company Information

Company registration number	01167127
Registered office	Royal Liver Building Liverpool L3 1PY
Company secretary	Mr I M Sherlock
Directors	Sir Martin Harris (Chairman) Dr K J Carter (Deputy Chairman) Professor Dame Glynis M Breakwell Professor John Bull (retired 31 March 2014) Mr M G Butcher (retired 31 January 2014) Mr J W Devlin Professor Sir David Eastwood Ms K English (appointed 1 May 2014) Ms V A Holmes (resigned 31 August 2013) Mr I R Maybury (appointed 1 November 2013) Mr M R Merton (appointed 1 February 2014) Mr D C McDonnell Mr M R Poisson Dr A M Roger Mr J W D Trythall
Bankers	Barclays Bank Plc 48b to 50 Lord Street Liverpool L2 1TD
Independent Auditors	Grant Thornton UK LLP Statutory Auditor Chartered Accountants Royal Liver Building Liverpool L3 1PS
Solicitors	DLA Piper UK LLP India Buildings Water Street Liverpool L2 0NH

Strategic report for the year ended 31 March 2014

The directors submit their strategic report, directors' report and the financial statements for the year ended 31 March 2014.

Universities Superannuation Scheme Ltd (the company), which is limited by guarantee and does not have share capital, is the corporate trustee of Universities Superannuation Scheme (USS or the scheme).

USS Investment Management Ltd is a subsidiary of the company. Its principal activity is to provide investment management services exclusively to Universities Superannuation Scheme Ltd.

The primary key performance indicator used by the directors in measuring the financial performance of the group is the level of operating costs. The company recovers its costs in accordance with the scheme rules generating neither profit nor loss.

Operating costs for the year amounted to £83,403,000 (2013: £72,682,000), representing an overall increase of 15% compared to the prior year.

Throughout the year ended 31 March 2014 the group proactively managed the costs of the administration of the scheme and the management of the investments. A summary of operating costs are detailed below.

Operating costs

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

	2014 £'000	2013 £'000	Variance £'000	Variance %
Personnel costs	35,096	30,562	4,534	15
Premises costs	3,516	3,667	(151)	(4)
Investment costs	25,032	21,688	3,444	15
Other costs	19,759	16,765	2,994	18
	83,403	72,682	10,721	15

The headcount of permanent employees has risen by 8% to 334 across the group at 31 March 2014, as a result of key policy and external factors, and has lead to an increase in the level of personnel costs. Additional resource was required to manage the increasing administration workload generated by the scheme's growing population of active and deferred members, which has rose from 303,060 to 316,440 (4%) following the introduction of auto-enrolment.

Personnel costs contain a £1,000,000 provision which represents a reasonable estimate of future payout of the long term investment plans (LTIPs). Further details are in notes 13 and 16 to the financial statements.

Within other costs, amounts relating to the triennial valuation and the work to update the trustee's integrated approach to scheme funding have risen by £2,633,000 in 2014. This project is bringing together the employer covenant, investment strategy and actuarial assumptions in order to develop an integrated approach to risk management. This forms an important part of the strategy for the scheme going forward.

Investment costs have increased by £3,344,000 following a number of changes to assets managed by external fund managers:

- An appointment has been made to manage a liability driven investment mandate to reduce the volatility of the scheme funding ratio by hedging an element of the scheme's interest rate and inflation risk without materially impacting the overall anticipated investment return.
- The same company has been appointed to manage a segregated investment grade credit mandate, which was previously held through a pooled vehicle.
- The asset allocation to emerging market debt has risen during the year with an increase in funds under management with external managers. This is in line with our investment appetite in this area.

During the year the company made enhancements to its facilities and the information technology infrastructure to support its operations. Investment in capital expenditure in these areas amounted to £3,559,000.

Principal risks and uncertainties

The main risks to the group relate to operational and regulatory risk, as the group's fundamental objective and purpose is to manage the scheme.

The directors' expectations for risk management within the group are set down in USS's risk governance policy which defines the board's risk appetite, the types of risks USS is exposed to and the related risk governance arrangements. Risks that could impact on the delivery of USS's business objectives, and the internal control systems that support them, are documented and assessed against risk appetite. Where risks are found to be operating outside risk appetite, appropriate remedial actions are devised, implemented and tracked to resolution.

The principal risks are largely operational in nature comprising the risk of poor governance over business decision making; risk of loss arising from financial crime; the non-availability of sufficient, competent staff; the failure to observe regulations imposed by the Pension Regulator, the Financial Conduct Authority, the Information Commissioner and other relevant legal authorities and standard setters applicable to USS's business; the risk of loss arising from the failure of a third party business relationship; the risk of loss or disruption arising from a disaster or business continuity event; a failure of a key business process or technology service; and the risk that changes to USS's business processes are not implemented effectively.

The manifestation of these risks could lead to a combination of sub-optimal business decision making, financial losses or escalating running costs, failure to complete processing and administrative activities accurately and on a timely basis, regulatory fines or censure or significant disruption to business processes. In extreme cases this could be very damaging to USS's reputation and standing with its key stakeholders. USS implements a range of activities to try and reduce either the likelihood or impact of these events including: strategic, financial and operational planning processes, governance and oversight processes, legal and regulatory compliance programmes, supplier relationship management, business continuity planning and structured business change management.

Going concern

In performing their going concern assessment the directors have reviewed the principal risks and uncertainties detailed above. They are not considered to be of a magnitude which cast significant doubt on the group's ability to continue as a going concern and accordingly the financial statements have been prepared on a going concern basis.

This report was approved by the board on 17 July 2014 and signed on its behalf.

By order of the board

I M Sherlock
Company Secretary

Directors' report for the year ended 31 March 2014

Directors

The directors who held office during the year are set out on pages 8 to 9.

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

Employees

The group 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 persons who have a disability as defined by the Equality Act 2010, the group 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 group'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 group'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 group objectives are an important part of 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 group can be achieved.

Donations

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

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

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

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 the group and of the result of the company and the group 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 accounting 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 group 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 are also responsible for safeguarding the assets of the company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Provision of information to auditor

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- that each director has taken all the steps that they ought to have taken as directors in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Under section 487(2) of the Companies Act 2006, Grant Thornton UK LLP will be deemed to have been reappointed as auditor 28 days after these financial statements are sent to members or 28 days after the latest date prescribed for filing the financial statements with the registrar, whichever is earlier.

This report was approved by the board on 17 July 2014 and signed on its behalf.

By order of the board

I M Sherlock
Company Secretary

Independent auditor's report to the members of Universities Superannuation Scheme Ltd

We have audited the financial statements of Universities Superannuation Scheme Ltd for the year ended 31 March 2014 which comprise the consolidated profit and loss account, the consolidated statement of operating costs, the group and parent company balance sheets, the consolidated cash flow statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 86, 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 Financial Reporting Council'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 group's and of the parent company's affairs as at 31 March 2014 and of the group's result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the directors' report for the financial year for which the financial statements 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Paul Flatley
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP,
Statutory Auditor,
Chartered Accountants
Liverpool

17 July 2014

Consolidated profit and loss account for the year ended 31 March 2014

	Note	2014 £m	2013 £m
Turnover	1	83,403	72,682
Administrative expenses		(83,403)	(72,682)
Profit or loss on ordinary activities before and after taxation	14	–	–

There were no recognised gains and losses for 2014 or 2013 other than those included in the profit and loss account.

All amounts relate to continuing operations.

The notes on pages 94 to 105 form part of these financial statements.

Consolidated statement of operating costs for the year ended 31 March 2014

	Note	2014 £'000	2013 £'000
Personnel costs			
Employees' emoluments	2	32,641	28,685
Directors' emoluments and expenses	3	677	565
Recruitment, training and welfare		1,778	1,312
		35,096	30,562
Premises costs			
Rents, rates, service charges and utilities		2,803	2,961
Depreciation and maintenance		713	706
		3,516	3,667
Investment costs			
Securities research costs		9,136	8,993
Securities management		7,200	5,475
Property management		5,008	3,130
Custodial services		2,014	1,792
Legal costs - property management		923	1,260
- other		356	671
Property valuation		232	190
Investment performance measurement		163	177
		25,032	21,688

Consolidated statement of operating costs for the year ended 31 March 2014 (continued)

Other costs			
Computer and information services costs	4	6,623	6,299
Pension Protection Fund levy	5	3,248	3,484
Professional fees	6	6,834	4,199
Travel and car costs		1,072	1,289
Office equipment		418	504
Institution liaison and member communication		431	330
Telephones and postage		431	359
Printing and stationery		256	248
Insurances		140	149
Auditors' remuneration	7	119	133
FCA fees		109	92
(Profit)/loss on disposal of fixed assets		(42)	11
Sundry expenditure/(income)		120	(332)
		19,759	16,765
Total operating costs		83,403	72,682

Balance sheets as at 31 March 2014

Company registration number: 01167127

		Group		Company	
	Note	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Fixed assets					
Tangible fixed assets	8	4,576	2,439	4,116	1,873
Investment in subsidiary undertakings	9	–	–	921	921
		4,576	2,439	5,037	2,794
Current assets					
Debtors	10	11,225	8,043	9,091	6,298
Cash at bank and in hand		4,065	5,191	6	6
		15,290	13,234	9,097	6,304
Creditors: amounts falling due within one year	11	(17,189)	(13,945)	(14,134)	(9,098)
Total assets less current liabilities		2,677	1,728	–	–
Creditors: amounts falling due after more than one year	12	(1,677)	(1,728)	–	–
Provision for liabilities and charges	13	(1,000)	–	–	–
Net assets		–	–	–	–

The notes on pages 94 to 105 form part of these financial statements.

The financial statements on pages 89 to 93 were approved by the board of directors on 17 July 2014 and were signed on its behalf by:

Sir Martin Harris
Chairman

Dr Kevin Carter
Deputy Chairman

Consolidated cash flow statement for the year ended 31 March 2014

	Note	2014 £'000	2013 £'000
Operating activities			
Cash received from USS		80,311	77,975
Operating costs paid	14	(78,000)	(72,181)
Net cash inflow from operating activities		2,311	5,794
Capital Expenditure			
Purchase of tangible fixed assets		(3,559)	(662)
Sale of tangible fixed assets		122	52
		(3,437)	(610)
(Decrease)/increase in cash	14	(1,126)	5,184

The notes on pages 94 to 105 form part of these financial statements.

Notes to the financial statements for the year ended 31 March 2014

1 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards (UK Generally Accepted Accounting Practice).

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.

The accounting policies of the group have remained unchanged from the previous year and are set out below.

Basis of consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary USS Investment Management Ltd drawn up to 31 March 2014. All intercompany balances and transactions have been eliminated on consolidation.

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 into these financial statements 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 Ltd, Mr I M Sherlock, at Royal Liver Building, Liverpool, L3 1PY.

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The parent company's result for the year was £nil (2013: £nil).

Going concern

In performing their going concern assessment the directors have reviewed the principal risks and uncertainties facing the group. These mainly relate to operational and regulatory risk, as the group'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 group's ability to continue as a going concern and accordingly the financial statements have been prepared on a going concern basis.

Turnover

Turnover represents the recharge of costs to USS in accordance with the rules of the scheme which state that all costs and expenses of managing and administering the scheme incurred by the trustee company during the year shall be paid out of the fund.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, less depreciation and any provision for impairment. Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The expected useful economic life of an asset commences when the asset is ready to be used as required. The principal annual rates used for this purpose are:

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

Operating leases

Rental costs under operating leases are charged on a straight line basis over the lease term.

Pensions

The group participates in Universities Superannuation Scheme, 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 group 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. Amounts that the group have provided for are explained in more detail in note 13.

Contingent liabilities

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 group is registered for Value Added Tax (VAT) 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.

Investments

Investments are stated at cost, less any provision for impairment.

2 Employees' emoluments

	2014	2013
The average weekly number of persons employed by the group during the year (excluding directors) was:		
Permanent employees	319	293
Contractors	29	29
	348	322

	2014 £'000	2013 £'000
Staff costs for the above persons were:		
Wages and salaries: Permanent employees	21,419	19,941
Contractors	3,591	2,773
Pension costs	3,644	3,286
Social security costs	2,644	2,178
Restructuring costs	1,343	507
	32,641	28,685

3 Directors' emoluments and expenses

	2014 £'000	2013 £'000
Fees	568	474
Employer's costs – national insurance contributions	75	55
Expenses	34	36
	677	565

Directors are remunerated on a basis which is approved by the Joint Negotiating Committee and is in accordance with the contribution which they make to the work of the company and their legal responsibilities.

No pension contributions are made on behalf of directors. As at 31 March 2014, six of the directors were members of USS. Membership, whether deferred, pensioner or active is through their employment with the institutions.

Directors' fees charged to the financial statements were as follows:

	2014 £'000	2013 £'000
Sir Martin Harris (Chairman)	70	69
Dr K J Carter (Deputy Chairman)	78	26
Professor John Bull	70	57
Ms V A Holmes	55	75

3 Directors' emoluments and expenses (continued)

	2014 £'000	2013 £'000
Mr D C McDonnell	45	41
Mr M G Butcher	41	38
Mr J W D Trythall	40	29
Mr J W Devlin	29	29
Professor Dame Glynis M Breakwell	36	29
Mr M R Poisson	32	8
Professor Sir David S Eastwood	26	23
Dr A M Roger	23	13
Mr I R Maybury	17	–
Mr M R Merton	6	–
Mr H R Jacobs	–	25
Mr D Guppy	–	12
	568	474

4 Computer and information services costs

	2014 £'000	2013 £'000
Investment information services	3,725	3,592
Computer running costs	1,576	1,468
Software depreciation	335	388
Investment accounting services	733	566
Hardware depreciation	254	252
Computer bureau fees	–	33
	6,623	6,299

5 Pension protection fund

	2014 £'000	2013 £'000
Scheme-based and risk based levies	2,727	2,892
Administration levy	273	273
General levy	248	247
Fund levy	–	72
	3,248	3,484

6 Professional fees

	2014 £'000	2013 £'000
Updating scheme funding approach	3,104	471
Legal	1,257	1,053
Consultancy	1,089	1,041
Actuarial	794	1,062
Committee members (other than directors)	302	254
Public relations	111	119
Other	110	89
Member matters	67	59
Scheme changes	–	51
	6,834	4,199

7 Auditors' remuneration

	2014 £'000	2013 £'000
USS	83	98
USS Investment Management Ltd	26	25
Universities Superannuation Scheme Ltd	10	10
	119	133

There has been no remuneration of the company's and group's auditors for provision of services other than for the audit of USS financial statements and the audit of these financial statements (2013: £nil).

8 Tangible fixed assets

Group	Alterations to rented premises £'000	Computer equipment £'000	Computer software £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 April 2013	4,640	1,893	5,427	2,793	327	15,080
Additions	985	1,685	378	442	68	3,559
Disposals	–	–	–	–	(215)	(215)
At 31 March 2014	5,625	3,578	5,805	3,235	180	18,424
Accumulated depreciation						
At 1 April 2013	3,715	1,643	4,931	2,166	186	12,641
Charge for year	505	256	333	186	62	1,342
Disposals	–	–	–	–	(135)	(135)
At 31 March 2014	4,220	1,899	5,264	2,352	113	13,848
Net book value						
At 31 March 2014	1,405	1,679	542	883	67	4,576
At 31 March 2013	925	250	496	627	141	2,439

Company

Cost						
At 1 April 2013	4,640	1,893	5,427	1,308	327	13,595
Additions	985	1,685	378	384	68	3,500
Disposals	–	–	–	–	(215)	(215)
At 31 March 2014	5,625	3,578	5,805	1,692	180	16,880
Accumulated depreciation						
At 1 April 2013	3,715	1,643	4,931	1,247	186	11,722
Charge for year	505	256	332	22	62	1,177
Disposals	–	–	–	–	(135)	(135)
At 31 March 2014	4,220	1,899	5,263	1,269	113	12,764
Net book value						
At 31 March 2014	1,405	1,679	542	423	67	4,116
At 31 March 2013	925	250	496	61	141	1,873

9 Investment in subsidiary undertakings

	Company	
	2014 £'000	2013 £'000
At 1 April	921	–
Investment in USS Investment Management Ltd	–	921
At 31 March	921	921

On 1 October 2012, 920,643 ordinary shares of £1 were issued to the company by USS Investment Management Ltd.

10 Debtors

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Amounts due from related party	8,369	5,277	8,369	5,277
Prepayments	2,603	2,582	684	967
Other debtors	253	184	38	54
Prepayments	11,225	8,043	9,091	6,298

11 Creditors - Amounts falling due within one year

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Amounts due to group undertakings	–	–	5,657	3,245
Accrued expenditure	9,514	6,501	5,784	3,087
Other creditors	4,246	3,686	2,442	2,577
Taxation and social security	3,429	3,758	251	189
	17,189	13,945	14,134	9,098

12 Creditors - Amounts falling due after more than one year

An accrual of £1,677,000 (2013: £1,728,000) has been made for future payments relating to the annual incentive plan that has been awarded. An element of the award is deferred for a period of three years if the total award earned exceeds a certain threshold.

13 Provision for liabilities and charges

A provision has been made for an award of £1,000,000 (2013: £nil) which is a reasonable estimate of the amount to be paid in March 2016 as a result of the LTIPs. Further details are explained in note 16.

14 Notes to the cash flow statement

14a Reconciliation of net cash flow from operating activities

	2014 £'000	2013 £'000
Operating costs - recoverable from USS	83,403	72,682
(Increase)/decrease in creditors	(4,193)	601
Profit/(loss) on sale of tangible fixed assets	42	(11)
Depreciation	(1,342)	(1,424)
Increase in debtors (excluding USS)	90	333
Operating costs paid	78,000	72,181

A reconciliation between the operating profit reported in the profit and loss account and the net cash flow from operating activities reported in the cash flow statement is a requirement of FRS 1 paragraph 12. The directors believe that the format above remains more appropriate given the nature of the group and the environment in which it operates.

14b Reconciliation of net cash flow to movement in net funds

	2014 £'000	2013 £'000
(Decrease)/increase in cash in the period	(1,126)	5,184
Change in net funds	(1,126)	5,184
Net funds at 1 April	5,191	7
Net funds at 31 March	4,065	5,191

14c Analysis of changes in net funds

	At 1 April 2013 £'000	Cash flows £'000	Other changes £'000	At 31 March 2014 £'000
Cash at bank and in hand	5,191	(1,126)	–	4,065

15 Operating lease commitments

The group is committed to making future annual payments under operating leases which expire as follows:

	Land and buildings		Other	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Less than one year	90	–	–	4
Between two and five years	–	–	133	46
Over five years	1,557	1,499	–	–

16 Contingent liability

The group has in place a series of LTIPs, awarded annually, to ensure that a significant portion of the rewards available to key employees are tied to the subsequent long-term performance of the scheme.

The total amount of awards made to 31 March 2014, which have not previously lapsed, is £10,131,000 at 31 March 2014 (2013: £8,513,000). Should this amount be paid, national insurance contributions of £1,398,000 (2013: £1,175,000) would be an additional cost, based on rates in effect at 31 March 2014.

Each plan is individually assessed, on an annual basis, for the likelihood of a payment. This is triggered based on the achievement of a five year annualised investment outperformance of pre-determined benchmarks. For the 2013 plan, the award will have phased vesting of one third of the annual value in each of years three, four and five, at which point the appropriate payment will be made.

Given the performance achieved to date, the outperformance hurdles set in the plans and the fact that future outperformance cannot be guaranteed, it is considered that £1,000,000 is a reasonable estimate of the amount to be paid out on the 2011 and 2013 plans (representing £879,000 plus £121,000 of national insurance contributions) and a provision has been made in the financial statements (see note 13). Whilst the other plans may pay out depending on future investment outperformance, the current likelihood of this occurring is such that no provision has been made in relation to the remaining awards of £9,252,000 (plus £1,277,000 of national insurance contributions) in these financial statements.

The company had no contingent liabilities at 31 March 2014.

17 Capital commitments

The group and company had no capital commitments at 31 March 2014 or 31 March 2013.

18 Pension costs

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

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 three and a maximum of five are independent 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 2014 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 (i.e. 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

As at 31 March 2011, 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 (i.e. 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 an AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

As part of this valuation, the trustee has determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. In 2011 the actuary estimated that if experience remained in line with the assumptions made, the shortfall at 31 March 2014 would be £2.2 billion, equivalent to a funding level of 95%.

However, changes in market conditions between March 2011 and March 2014 have had an impact on scheme funding. The next formal triennial actuarial valuation will take place as at 31 March 2014, and work is currently under way to update the actuarial assumptions and allow for any adjustments to the overall funding approach adopted by the trustee board in consultation with stakeholders.

18 Pension costs (continued)

As work on the 2014 valuation is not yet complete the trustee cannot provide the final figure however, an estimate has been provided using the assumptions used to deliver the 2011 actuarial valuation. On that basis, the actuary has estimated that the funding level under the scheme specific funding regime will have fallen from 92% at 31 March 2011 to 85% at 31 March 2014. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions.

The funding level has decreased mainly due to a decrease in real gilt yields, reducing the implied net discount rate and therefore placing a higher value on the schemes liabilities. This increase has been partially offset by a higher than expected investment return.

On the FRS17 basis, using an AA bond discount rate of 4.5% per annum based on spot yields, the actuary estimates that the funding level at 31 March 2014 was 75%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 61%.

Surpluses or deficits which arise at future valuations may impact on the group'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 £'000	Impact on shortfall £'000
Operating costs - recoverable from USS	83,403	72,682
(Increase)/decrease in creditors	(4,193)	601
Profit/(loss) on sale of tangible fixed assets	42	(11)
(Increase)/decrease in creditors	(4,193)	601
Profit/(loss) on sale of tangible fixed assets	42	(11)

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 was included, in addition, on account of the variability mentioned above.

As at the 2011 valuation the scheme was still a full 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 valuation effective date of 31 March 2011 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

New entrants – Other than in specific, limited circumstances, new entrants are now provided benefits 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.

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%.

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

The trustee's role is to set risk and return parameters which reflect the strength of the sponsoring employers and the nature of the scheme's liabilities. These parameters, taken together with the anticipated returns form the basis of the trustee's funding strategy. These parameters are informed by advice from its internal investment team, its investment consultant and the scheme actuary, as well as an independent assessment of the support available from the sponsoring employers. The trustee remains confident that it can continue to take a long-term view of scheme funding, backed as it is by a robust Higher Education sector.

The fund is invested in a wide range of asset classes, both publicly traded (including equities and fixed income) and private (including private equity, infrastructure, property and timberland). A diversified portfolio helps to spread investment risk across different asset classes and to boost the level of confidence in maintaining sufficient investment returns from the fund as a whole. This investment approach is innovative and responsible, and targeted at achieving returns required to meet the scheme's liabilities. Recently, the trustee has invested directly in infrastructure assets. These investments are typically illiquid, but can achieve attractive inflation-linked returns in ways often not available in the publicly traded markets and which can match the scheme's liabilities to a high degree.

At 31 March 2014, USS had over 154,000 active members and the group had 316 active members participating in the scheme.

The total pension cost for the group was £3,644,000 (2013: £3,286,000). The contribution rate payable by the group was 16% of pensionable salaries.

19 Related party transactions

There are no related party transactions other than transactions between the company and Universities Superannuation Scheme. The company acts as the trustee of the scheme 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 the scheme.

The group provides administration and investment management services to the scheme charging £25,900,000 (2013: £21,500,000) and £57,500,000 (2013: £51,200,000) respectively, with a balance due from USS of £8,369,000 as at 31 March 2014 (2013: £5,277,000).

The group has taken advantage of the exemptions within Financial Reporting Standard No 8 "Related Parties" and has not disclosed transactions with group undertakings where the company is a 100% subsidiary as consolidated financial statements are prepared.

Committee Reports

Audit Committee

Membership & Meetings

Mr Michael Butcher and Mr Michael Merton acted as chairs of the audit committee during the reporting period. The committee is comprised of members appointed by the board and includes four non-executive directors and a special committee member appointed to provide specific expertise. The members have significant experience in areas relevant to the committee's work including finance and audit. The biographical details for director members can be found on pages 8 to 9. In addition, the special member of the committee, Mr Gordon Coull, provides the committee with recent and relevant financial experience as a former partner with EY.

The committee met five times during the year dealing with 80 items of business. Membership and meeting attendance are set out below:

	Meetings	
Member	**Eligible to attend**	**Attended**
Mr Michael Butcher (chair until 31 January 2014)	5	5
Mr Michael Merton (chair from 1 February 2014)	0	0
Mr David McDonnell	5	5
Mr Joseph Devlin	5	5
Mr Gordon Coull	5	5
Professor John Bull (until 31 March 2014)	5	5
Ms Kirsten English (from 1 May 2014)	0	0
Average attendance at meetings		**100%**

Professor Bull retired as a director and committee member on 31 March 2014 and the committee would like to extend its thanks for his significant contribution to the committee's work. Ms English was appointed as both a director and member of the committee on 1 May 2014.

Mr Butcher retired as a director and chair of the committee on 31 January 2014 and the committee would like to extend its thanks to him for his valued leadership and contribution. Mr Butcher was succeeded by Mr Merton on 1 February 2014.

In addition to committee members, meetings are usually attended by the group chief executive officer, the chief financial and resource officer, group general counsel, chief technology and change officer, head of internal audit, head of compliance and the company secretary.

Role

The committee was established by the board in March 1982 to:

- provide assurance to the board on all matters relating to the appropriateness and effectiveness of the trustee company's risk management and internal control systems and those of its investment subsidiary, USS Investment Management Ltd (together, the group); and
- assist the board in ensuring that financial and business reporting arrangements are appropriate to achieve accurate, balanced and understandable corporate reporting.

The committee's responsibilities are detailed in their terms of reference available at **www.uss.co.uk**.

Key activities in 2013/14

The committee undertook each of its principal responsibilities during the year. The following key areas were formally discussed, reviewed and where appropriate approved by the committee or recommended for board approval during 2013/14.

- external audit programme;
- external audit effectiveness, independence and objectivity;
- external audit management letter containing observations arising from the annual audit;
- half yearly external audit reports;
- internal audit programme;
- internal audit effectiveness;
- internal audit charter defining its role and responsibilities;
- internal audit sourcing strategy;
- an annual report on the effectiveness of internal control systems;
- developments in the group's risk management processes;
- accounting and reporting policies against legal requirements, regulatory requirements and best practice;
- draft financial statements and other material published with the accounts to ensure the integrity and clarity of disclosure;
- arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- committee terms of reference; and
- committee effectiveness.

Finance & Policy Committee

Membership & Meetings

Professor John Bull was chair of the finance & policy committee during the reporting period. The committee was comprised of members appointed by the board and met four times during the year dealing with 61 items of business. Membership and meeting attendance are set out below:

	Meetings	
Member	**Eligible to attend**	**Attended**
Professor John Bull (chair until 31 March 2014)	4	4
Professor Sir David Eastwood	4	3
Mr Joseph Devlin	4	4
Mr Bill Trythall	4	4
Dr Kevin Carter (from 1 September 2013)	3	1
Mr Rene Poisson	4	4
Mrs Virginia Holmes (until 31 August 2013)	1	0
Mr Bill Galvin (from 1 August 2013)	3	3
Mr David Webster	4	4
Mr Brendan Mulkern	4	4
Mr Tom Merchant (until 3 May 2013)	0	0
Average attendance at meetings		**89%**

Professor Bull retired as a director and committee chair on 31 March 2014. We are grateful to Professor Bull for his valued leadership and contribution to the committee during his term of office.

On 31 August 2013 Mrs Holmes stepped down as a committee member to take up the role of chairman of the subsidiary company USS Investment Management, and was succeeded by Dr Carter. Mr Galvin was appointed as Group Chief Executive Officer in August 2013 succeeding Mr Merchant and became a committee member by virtue of his appointment. We are grateful to Mrs Holmes and to Mr Merchant for their valued contribution as committee members.

In addition to committee members the head of pensions operations, head of IT, chief operating officer (USS Investment Management Ltd) and company secretary, who is secretary of the committee, attended meetings when invited by the committee chair.

Role

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, communication with stakeholders and any other major issues requiring detailed consideration on behalf of the board.

The committee's responsibilities are detailed in their terms of reference available at **www.uss.co.uk**.

As part of USS's continuous drive for excellence in governance, a review of committee structure was conducted and a revised structure established to better meet current and forthcoming governance needs. Under the new structure, the finance & policy committee was disestablished with effect from 1 April 2014 with its role and responsibilities reallocated to other governance bodies.

Key activities in 2013/14

The committee:

- reviewed key components of the work to update the trustee's integrated approach to scheme funding, prior to its consideration by the board;
- reviewed the strategic and business plans for 2014/15 and monitored performance against 2013/14's plans;
- considered issues of scheme policy and administration including scheme mergers, exclusivity and employer debt;
- reviewed arrangements for health and safety, business continuity and company insurances;
- oversaw the implementation of USS's PR and communications strategy; and
- monitored non-investment business risks.

Investment Committee

Membership & Meetings

Dr Kevin Carter took over the chairmanship of the investment committee in September 2013, replacing Mrs Virginia Holmes who had chaired the committee since 17 November 2005. Mrs Holmes remains within the USS group, acting as director and chairman of USS Investment Management Ltd . The committee's members are appointed by the board and comprise board and special members. The meetings are typically attended by the group chief executive officer, the chief executive officer of USS Investment Management Ltd , the chief financial and resource officer and members of the executive of USS Investment Management Ltd . An investment specialist, Mercer, also attends the meetings. Membership and meeting attendance is detailed below:

	Meetings	
Member	**Eligible to attend**	**Attended**
Dr Kevin Carter (chairman with effect from 1 September 2013)	5	5
Ms Sarah Bates (special member) (appointed on 1 December 2013)	1	1
Professor John Bull (term ended on 31 March 2014)	5	5
Professor Dame Glynis Breakwell	5	4
Miss Angela Docherty (special member)	5	5
Sir Martin Harris	5	5
Mrs Virginia Holmes (special member)	5	5
Mr Ian Maybury (appointed on 1 November 2013)	2	2
Mr David McDonnell	5	4
Mr Roy Gillson (retired on 12 September 2013)	3	2
Mr Graham Allen (special member) (retired on 31 May 2013)	1	1
Dr Angela Roger (appointed on 1 June 2013)	4	4
Average attendance at meetings		**93%**

Role

The committee was established under article 49 of the Articles of Association of USS and rule 63 of the scheme rules by the board to advise the trustee company on all strategic matters relating to, and provide oversight of, the investment of the scheme's assets.

The committee's responsibilities are detailed in their terms of reference available at **www.uss.co.uk**.

Key activities in 2013/14

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) development;
- Review of arrangements for safe custody;
- Review of tactical asset allocation (TAA) and liability driven investing (LDI) mandate with the related strategic benchmark;
- New investment instruments and a number of de-risking initiatives;
- Tail risk and liability hedging strategies;
- Key investment-related policies; and
- Investment Management Agreement with USS Investment Management Ltd.

Nominations & Governance Committee

Membership & Meetings

Professor John Bull chaired the nominations and governance committee (known as the governance & nominations committee until 1 April 2014), made up of members appointed by the board, which met four times during the year and considered 34 items of business. Membership and meeting attendance throughout the year is set out below:

	Meetings	
Member	**Eligible to attend**	**Attended**
Professor John Bull (chair until 31 March 2014)	4	4
Sir Martin Harris	4	3
Professor Sir David Eastwood	4	4
Dr Angela Roger	4	3
Mr Bill Galvin (from 1 August 2013)	3	3
Mr David Webster (May-July 2013)	1	1
Mr Tom Merchant (until 4 May 2013)	0	0
Mr Ian Maybury	4	4
Average attendance at meetings		**90%**

Professor Bull retired as a director and committee chair on 31 March 2014. We are grateful to Professor Bull for his valued leadership and contribution to the committee during his term of office.

Mr Merchant (chief executive) retired on 4 May 2013. We thank Mr Merchant for his valuable contribution as a committee member. Mr Galvin became a member of the committee when appointed as group chief executive officer on 1 August 2013. He replaced Mr Webster who was acting chief executive (and by virtue of this position, a committee member) from May 2013 to July 2013.

In addition to committee members, meetings are usually attended by the company secretary, who is secretary to the committee.

Role

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 an appropriate balance of skills, experience and knowledge to effectively discharge board and committee responsibilities. The committee also has responsibility for ensuring that the agreed governance framework is appropriately implemented.

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

Key activities in 2013/14

The committee has considered and made recommendations where required in the following key areas during the year:

- USS's corporate governance framework;
- Succession planning for board and committee members;
- Appointment and reappointment of directors and committee members;
- Skill requirements for board and committees;
- Appraisal, training and development for the board and committees; and
- Regulatory and statutory issues relating to governance

Remuneration Committee

Membership & Meetings

Mr David McDonnell acted as chair of the remuneration committee during the reporting period. The committee is comprised of members appointed by the board. The committee met three times during the year and dealt with 12 items of business. Membership and meeting attendance are set out below:

	Meetings	
Member	**Eligible to attend**	**Attended**
Mr David McDonnell (chair until 30 April 2014)	3	3
Professor Dame Glynis Breakwell	3	2
Mr Joseph Devlin	3	3
Mr Michael Butcher (until 28 February 2014)	3	3
Average attendance at meetings		**92%**

Mr Butcher retired as a member of the committee on 28 February 2014 and the committee would like to extend its thanks to Mr Butcher for his significant contribution to the committee's deliberations.

As of 1 April 2014, Mr Rene Poisson took up the position of committee chair replacing Mr McDonnell who continues to act as a committee member. The committee would like to extend its thanks to Mr McDonnell for his valued leadership during his tenure as chair. Mr McDonnell has now taken up the position of chair of the governance and nominations committee.

In addition to committee members, the chair of USS Investment Management Ltd, the group chief executive officer, the chief executive (USS Investment Management Ltd), the chief operating officer (USS Investment Management Ltd) and the head of human resources attend committee meetings when invited by the committee chair.

Role

The committee was established by the trustee board to set and oversee the implementation of policy for the recruitment, motivation and retention of group employees with the exception of the chief executive officer whose remuneration package is determined at board level and the chief executive (USS Investment Management Ltd) whose remuneration package is agreed by the chairman of the committee in conjunction with the chairman of the investment management subsidiary (USS Investment Management Ltd). In the year the committee took on an additional responsibility for reviewing and making recommendations to the board on director remuneration within an overall cap set by the Joint Negotiating Committee.

The committee's responsibilities are detailed in their terms of reference available at **www.uss.co.uk**.

Key activities in 2013/14

The committee has dealt with the following key items of business during the year:

- Total compensation and benefits for employees;
- Bonus scheme and long-term incentive plans for investment staff; and
- Universities Superannuation Scheme Ltd and USS Investment Management Ltd non-executive director remuneration

Rules Committee

Membership & Meetings

The committee met five times during the year and considered 49 items of business. Membership and meeting attendance throughout the year is set out below. The date that Mr Howard Jacobs and Mr Denis Linfoot attended their last meeting is shown.

	Meetings	
Member	**Eligible to attend**	**Attended**
Mr Howard Jacobs (chair, until 10 September 2013)	2	2
Mr Bill Trythall (UCU nominated member)	5	5
Mr Denis Linfoot (UUK nominated member, until 11 March 2014)	5	5
Average attendance at meetings		**100%**

Role of the committee

The committee was established by the trustee company board (the "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 its terms of reference available at **www.uss.co.uk**.

Changes to the committee

As part of the overall review of the committee structure, the last meeting of the rules committee was held on 11 March 2014. The business of the rules committee will pass over to the newly formed 'rules group' that will operate under the auspices of the policy committee.

Mr Jacobs retired as chairman on 30 September 2013 and was succeeded in the role by Mr Brendan Mulkern, chief policy and external affairs officer at Universities Superannuation Scheme Ltd. Mr Linfoot was succeeded by Mr Cliff Vidgeon on 1 April 2014.

The committee is grateful for the contribution of Mr Jacobs and Mr Linfoot during their time as committee members.

Key activities in 2013/14

The committee has considered and made recommendations where required in the following key areas during the year:

- rules amendments to allow a specific group of staff moving, on/after 1 October 2013, from a support role to academic or comparable role with the same employer - typically upon being promoted or re-graded - to remain in that employer's own final salary pension scheme at the point of becoming eligible for USS;
- rules amendments arising from the Marriage (Same Sex Couples) Act 2013 to ensure uniformity of benefits paid to the surviving spouse of a scheme member irrespective of whether the partnership was a same sex marriage, opposite sex marriage or civil partnership;
- rules amendments, taking effect from 1 July 2013, to permit a multiple appointment member to opt for flexible retirement and introducing some minor amendments regarding auto-enrolment;
- development of a benefit enhancement for members who hold a regular post and variable post and retire on grounds of ill-health; and
- consideration of a number of forthcoming issues, including the abolition of contracting out and potential 'glitches' in the scheme rules following the last consolidation exercise.

Advisory Committee

Membership & Meetings

Mr Joe Gluza and Ms Pauline Collins acted as chairs of the advisory committee during the reporting period. The committee is comprised of members appointed by the board and met three times during the year dealing with 49 items of business. Membership and meeting attendance are set out below:

	Meetings	
Member	**Eligible to attend**	**Attended**
Ms Pauline Collins (chair from 1 July 2013)	3	3
Mr Joe Gluza (chair and member until 30 June 2013)	1	1
Mr David Goode (from 1 July 2013)	2	1
Dr Marion Hersh (from 1 July 2013)	2	2
Mr Cliff Vidgeon	3	3
Mr Denis Linfoot	3	3
Dr Tony Bruce	3	3
Dr Jimmy Donaghey (until 30 June 2013)	–	–
Dr Angela Roger*	3	3
Professor Dame Glynis Breakwell*	3	2
Average attendance at meetings		**91%**

*Universities Superannuation Scheme Ltd directors appointed to participate solely in consideration of Internal Dispute Resolution Cases

Mr Gluza was replaced as chair of the committee on 1 July 2013 by Ms Collins. Mr Gluza and Dr Donaghey left the committee and were succeeded by Mr Goode and Dr Hersh on 1 July 2013. We are grateful to Mr Gluza and to Dr Donaghey for their contribution to the committee.

In addition to committee members, meetings are usually attended by the head of pensions operations, the group chief executive officer and a legal representative from DLA.

Role

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, on complaints received from members or participating institutions and any other matters on which the trustee company requires advice.

The committee's responsibilities are detailed in their terms of reference available at **www.uss.co.uk**.

Key Activities in 2013/2014

- The majority of questions raised on the application or interpretation of the scheme rules were dealt with by senior officers. There were twenty-nine cases which required detailed consideration by the advisory committee during the year.
- Eighteen 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.
- Eleven cases were considered at stage two of the internal dispute resolution procedure. Three cases related to the time limits which apply when a member wishes to make a transfer on 'Club' terms, three cases related to decisions regarding early retirement on grounds of incapacity, three cases related to the terms of historic AVC contracts, one case related to a data issue and one to distribution of death benefits.

- In all eleven cases, the decisions at stage 1 of the internal disputes resolution procedure were upheld.
- In addition to making adjudications on these individual cases, the committee considered a number of other areas of the scheme including: a review of the scheme's incapacity and full commutation processes, consideration of the wording of certain member communications and updates regarding work undertaken by the trustee company in the areas of information technology, communications and data quality.

  In the year to 31 March 2014, there were three cases referred to the Pensions Ombudsman. In two of the three cases the Pensions Ombudsman found in USS's favour and the third is still being investigated by the Pensions Ombudsman.

Joint Negotiating Committee

Membership & Meetings

The Joint Negotiating Committee is a body comprising five representatives of Universities UK (UUK) and five representatives of the University and College Union (UCU), together with an independent individual who acts as chairman. The Joint Negotiating Committee met four times during the year and considered 32 items of business. Membership and meeting attendance throughout the year is set out below:

	Meetings	
Member	**Eligible to attend**	**Attended**
Sir Andrew Cubie (Independent committee member and chairman)	4	4
Dr Tony Bruce (UUK)	4	3
Mr Phil Harding (UUK)	4	4
Mr Will Spinks (UUK)	4	3
Mr Cliff Vidgeon (UUK)	4	4
Ms Geraldine Egan (UCU)	4	4
Mr Alan Carr (UCU) until 30 June 2013	1	1
Mr Roger Brooks (UCU) until 30 June 2013	1	1
Ms Angela Lamb (UCU) until 30 June 2013	1	1
Professor Malcolm Povey (UCU) until 30 June 2013	1	1
Mr Denis Linfoot (UUK) until 31 December 2013	3	3
Mr Joe Gluza (UCU) from 1 July 2013	3	3
Dr Jimmy Donaghey (UCU) from 1 July 2013	3	3*
Dr Marion Hersh (UCU) from 1 July 2013	3	3
Mr Gordon Watson (UCU) from 1 July 2013	3	3
Mr Malcolm Ace (UUK) from 1 January 2014	1	1
Average attendance at meetings		**95%**

* Mr David Goode attended the July meeting as an alternate for Dr Donaghey.

The committee would like to thank Mr Linfoot for his contribution to USS matters during his term of office on the Joint Negotiating Committee. He was replaced as the UUK appointee to the Joint Negotiating Committee by Mr Ace from January 2014.

The following individuals should also be thanked for their contribution to USS matters as members of the Joint Negotiating Committee; Mr Brooks, Mr Carr, Ms Lamb and Professor Povey. Dr Donaghey, Dr Hersh, Mr Gluza and Mr Watson joined the committee in their place in July 2013.

Role

The Joint Negotiating Committee is established under the rules of the scheme, and its powers are derived from those rules.

The committee's role 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.

The committee's responsibilities are detailed in their terms of reference available at **www.uss.co.uk**.

Key activities in 2013/14

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

- The funding and benefits sub-committee of the Joint Negotiating Committee – which was established to consider the long term sustainability and attractiveness of the scheme – has continued to meet over the course of the year. The sub-committee will have a key role to play over the course of the coming year leading up to the finalisation of the scheme's 2014 formal actuarial valuation.
- A working group of the Joint Negotiating Committee developed and recommended a proposal to introduce flexible retirement for members with multiple appointments. The required rule amendments were agreed by the committee and included in the eleventh deed of amendment which was effective from 1 July 2013.
- The committee agreed the appointment of two new independent directors.
- The committee approved rule amendments to clarify the interaction between the scheme and other pension schemes (notably the NHS pension scheme) where an eligible employee has remained as a member of a non-USS arrangement. The rule amendments were also included in the eleventh deed of amendment.
- The committee established a sub-group to consider and agree the terms upon which an employer would be able to amend its deed of accession so that it reverted to the standard eligibility criteria with future support staff being eligible for an alternative arrangement. The committee has received and agreed three such requests over the course of the year.
- Following the trustee company's review of the scheme's admission terms and their role in scheme funding, a small number of supplementary issues arose from the review and the committee established a sub-group to consider those issues and any recommendations made by the board. The principal matter to consider was that of support staff promoted to USS-eligible roles, and the committee agreed that affected employees would be able to decide whether they should remain in the support staff scheme or join the career revalued benefits section of USS for future service. The rule amendments were incorporated into the twelfth deed of amendment which was executed on 18 September 2013 and effective from 1 October 2013.
- The option for employers to decide whether they would wish to satisfy their auto-enrolment duties via USS or a non-USS arrangement for re-employed pensioners or flexible retirers was due to end on 31 March 2014, at which point the only option would have been to enrol those eligible employees into USS. The committee agreed that this option should be extended by one year to 31 March 2015 to allow for a full review of the long-term policy position in respect of this group to be undertaken in Autumn 2014.
- Finally, the committee agreed rule amendments as a result of changes introduced by the Marriage (Same Sex Couples) Act 2013. The amendments ensure that there is uniformity of the benefits payable to the surviving partner of a USS member irrespective of whether the partnership was a marriage or a civil partnership. The changes were included in the thirteenth deed of amendment which was effective from 29 March 2014.

Chairman

Sir Martin Harris

Chairman

Chairmen of principal sub-committees

Dr Kevin Carter

Investment Committee

Professor Sir David Eastwood

Finance & Policy Committee

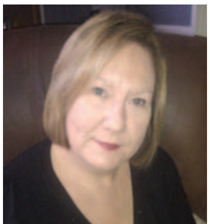
Michael Merton

Audit Committee

David McDonnell

Nominations & Governance Committee

Remuneration Committee



Pauline Collins

Advisory Committee

Sir Andrew Cubie

Joint Negotiating Committee

Executive group

Bill Galvin

Group Chief Executive Officer

Roger Gray

Chief Investment Officer

David Webster

Chief Financial & Resource Officer

Brendan Mulkern

Chief Policy & External Affairs Officer

Kevin Smith

Chief Service Delivery Officer

Jeremy Hill

Group General Counsel

Howard Brindle

Chief Technology & Change Officer

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