UNIVERSITIES SUPERANNUATION SCHEME

Report & Accounts
for the year ended 31 March 2013

Universities Superannuation Scheme Limited is the corporate trustee of one of the largest private sector pension funds in the UK with assets at 31 March 2013 of over £38 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 Limited) at Companies House is 1167127

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

In the last year the economic climate has remained turbulent and the scheme funding position has experienced significant volatility. The long-term financial outlook remains uncertain and we anticipate that this volatility will continue. The trustee board will continue to manage the fund in the best interests of members, working closely with the sponsoring employers to understand how the changing economic environment affects them and to ensure that the fund is able to provide the promised benefits.

The funding ratio provides an indication of the financial condition of the scheme. It is a snapshot measure (as a percentage) at a point in time and it compares the current market value of the scheme's assets with an actuarial estimation of the amount that is needed in today's money to fund the benefits accrued to the same date. The difference between these two measures, the assets and the scheme's liabilities, is expressed in monetary terms and is generally referred to as the scheme surplus or deficit.

The funding ratio at 31 March 2013 was 77%, the same as at 31 March 2012. However, behind that number there has been significant change. In March 2013 the assets of the scheme were at an all time high, at £39billion. This represents an increase of 14% over the year. The absolute size of the scheme deficit has also increased from £9.8billion to £11.5billion because although investment returns have exceeded those assumed by the trustee board over the year, continued uncertainties in the world economy have meant that the value placed on the liabilities has also increased substantially.

These are undoubtedly challenging times, and one of the steps that the trustee board is taking ahead of the next formal triennial valuation of the scheme on 31 March 2014, is to further enhance the funding approach through the development of a formal, holistic funding plan.

This updated plan draws together the three strands of pension scheme funding, namely the covenant of the employers that underpins the scheme, its link to the investment strategy for the fund and the actuarial assumptions for valuing the liabilities. This work includes a significant covenant assessment exercise, covering a number of the scheme's largest institutions, and looking at the changes in the higher education sector which affect institutional funding. The results of this, together with the investment and actuarial work that flows from it, will be completed ahead of the 2014 triennial valuation of the scheme. The board will be considering very carefully the outcome of the covenant assessment as the updated plan is prepared, a process which will of course involve employer representatives and other stakeholder bodies. The trustee company has continued its dialogue with the Pensions Regulator throughout the year and the production of the updated, holistic plan is in line with best practice guidelines.

During the year, we incorporated the scheme's investment activities into a subsidiary company; USS Investment Management Limited (USSIM). This new company will be regulated by the Financial Conduct Authority, whilst the scheme as a whole will continue to be supervised by the Pensions Regulator.

The trustee board is committed to maintaining an in-house investment team for a large proportion of the fund. It is more efficient and cost-effective to have an in-house team to manage a fund of this scale and means that the in-house investment managers are 100% dedicated to one client: USS, the trustee board and the institutions which it serves.

Considerable progress has been made in the last few years in improving and enhancing our investment capabilities and at the same time strengthening the team's support functions to match the increased investment complexity. The board is intent on better managing the gap between the scheme's assets and our liabilities while delivering the return and risk profiles to meet the scheme objectives. As with similar investment firms, investment performance is measured on a calendar year basis. The year to December 2012 was another good year with a 14% overall return, which included excess returns after costs of 0.2% above the overall benchmark, equal to £69 million of value added. Taking this further, the year to March 2013 saw a performance of 13.3% with the same excess returns on benchmark.

Membership of the scheme has grown at a steady rate for many years. This trend continued in 2012/13 with more than 17,000 members joining the scheme, an increase of 5% on the year. The career revalued benefits section of the scheme, which started in October 2011, now has over 20,000 active members out of a population of some 148,000 active members and a total member population of 300,000. Auto-enrolment came into force for our largest institutions on 1 March 2013 and, whilst it is early days, we have seen a significant increase in members taking up valuable scheme membership where they have been auto-enrolled under the new rules.

The recent changes to pensions tax, which saw the annual allowance and lifetime allowance amounts reduced, has also involved our administrative team in substantial additional work. The reduction in the annual allowance is not good news for some scheme members nor for good workplace pension schemes generally, and the further planned reductions will cause more members to be affected in due course by tax charges.

The trustee company compares its operating costs with large comparable schemes both in the UK and globally and continually seeks opportunities to improve cost effectiveness across the company.

There have been a number of changes to the board during the year, including the retirement of Howard Jacobs, who had been chairman of the Rules Committee and the Remuneration Committee. Howard's independent director position was filled by Rene Poisson in November 2012. Roy Gillson, the first chairman of USSIM, has unfortunately resigned due to ill health and, on behalf of the board, I wish him a full recovery. Other changes include the addition of Kevin Carter as a special member of the Investment Committee and Angela Roger, who initially took up membership of the Nominations and Governance Committee, and who has now also become a member of the Investment Committee. Both Angela and Kevin were appointed as members of the board during the year, Angela replacing David Guppy who retired earlier in the year.

In February 2013 the trustee board appointed Ali Tayyebi as scheme actuary, succeeding Edwin Topper who had held that position since 2001; the trustee board extended its very warm thanks to Edwin for his contribution to USS over more than a decade. Grant Thornton UK LLP took over as auditors to the scheme, USS Ltd and USSIM during the year.

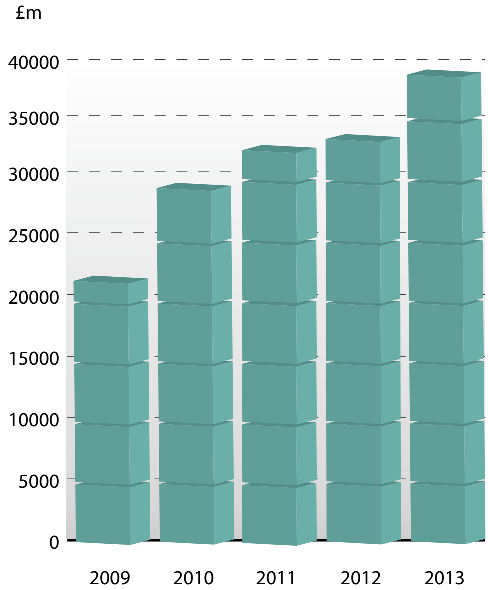
The company's chief executive, Tom Merchant, announced his retirement in November 2012. He stepped down on his 65th birthday in May 2013, and was succeeded by Bill Galvin, formerly chief executive of the Pensions Regulator, who took up the post of Group Chief Executive on 1 August 2013.

The next 12 months will be a challenging time for all pension funds. Globally we are in a low return environment and there are no guarantees about future returns on investments. The detailed work we are doing now on the updated funding plan will help the trustee board and the sponsoring employers to review the funding approach, ensuring that the fund can continue to deliver pension benefits for our members and a quality pension service for the higher education sector.

Sir Martin Harris
Chairman

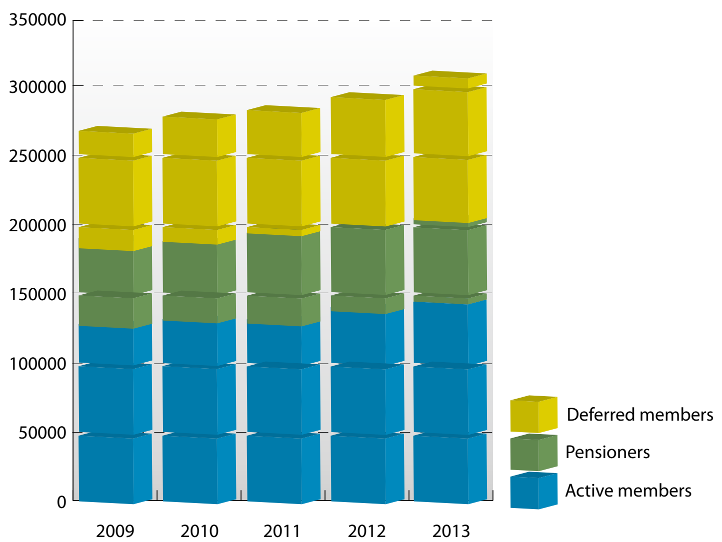
Summary of year

Fund



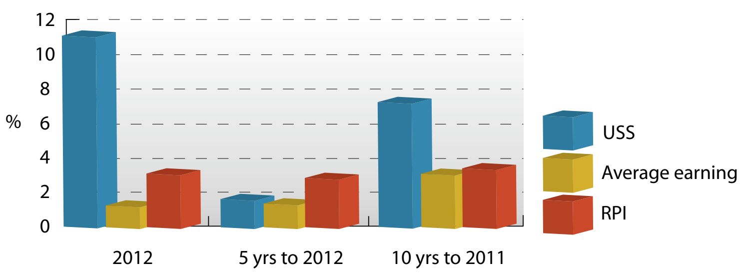
The fund's investments have risen to £38.6 billion (excluding AVCs) as at 31 March 2013 from £33.9 billion in 2012. More details are given in the investment report on page 24.

Membership



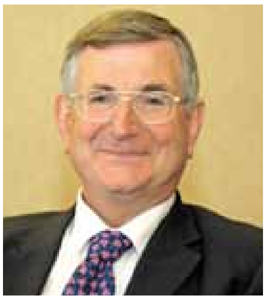
As in previous years, the membership of the scheme has continued to grow. As at 31 March 2013 the total number of members was 303,060 representing an increase of 5.25% from the previous year. Over the last five years the total number of members has increased by 18.8%. The career-revalued benefits (CRB) 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 20,459. More details are given in the membership statistics from page 43.

Performance



Strong investment performance in 2012 has enabled the fund's position to continue to recover from the adverse market conditions experienced in 2008. The 5 year returns are above average earnings but below RPI, however the 10 year returns are above both measures.

Board Members



Sir Martin Harris, Chairman

Martin Harris (69) has just retired as President of Clare Hall Cambridge and has been a director of Universities Superannuation Scheme Limited since 1 April 1991, deputy chairman from 1 July 2004 and chairman from 1 April 2006. He was Vice-Chancellor of the University of Manchester from 1992 to 2004 and Vice-Chancellor of the University of Essex from 1987 to 1992. He was Chancellor of the University of Salford from 2004-2009. 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 John Bull CBE

Professor Bull (73) was Vice-Chancellor of the University of Plymouth from 1989 until his retirement in 2002. An economist and accountant by discipline, he had a particular interest in the finance and management of higher education. He became a co-opted member of the USS board in 2004 and deputy chairman on 1 April 2006. From 2002 to 2008 he was chairman of Devon and Cornwall Learning and Skills Council and also of Dartington College of Arts. From 2002 to 2010 he was Chairman of Plymouth Hospitals NHS Trust.

Michael Butcher

Michael Butcher (66) became a co-opted member of the board on 1 November 2004 having retired from IBM where he held a variety of technical, operations and marketing positions in UK and Europe, latterly as Tivoli European Marketing Director. He was a member of Loughborough University Audit Committee from 2003 to 2011 and was also the lay member on their IT Projects Steering Group.

Professor Dame Glynis Breakwell

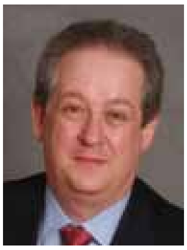
Professor Dame Glynis Breakwell (61) was appointed Vice-Chancellor of the University of Bath in 2001 having been previously Pro-Vice-Chancellor (Research) and Head of the School of Human Sciences at the University of Surrey.

Dame Glynis took her PhD in Pyschology 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 an Academican 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 (60) 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 Limited 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) Limited 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.



Rene Poisson

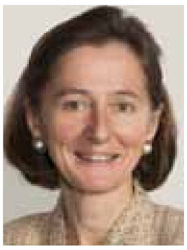
Rene Poisson (56) became a director of USS in November 2012 having retired after a 30 year career with JP Morgan latterly as Managing Director and Senior Credit Officer for EMEA. He is currently chair of the JP Morgan UK Pension Plan and its investment sub-committee, a senior adviser to NM Rothschild & Sons Limited and a patron of the Disability Challengers Charity.

David McDonnell CBE DL

David McDonnell (70) is the Vice Lord Lieutenant of Merseyside. Until 2009 he was Global Chief Executive of Grant Thornton. He is currently President of the Council of the University of Liverpool and a director of a number of companies. He was Chairman of National Museums Liverpool for ten years until 2005, when he was made CBE. He is an Honorary Fellow of Liverpool John Moores University. He was High Sheriff of Merseyside 2009/2010. He was appointed a Director of USS in April 2007

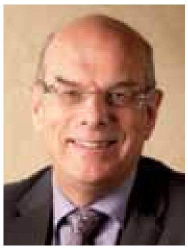
Bill Trythall

Bill Trythall (68) 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 appointed Pensioner Director in October 2009.



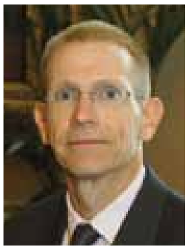
Virginia Holmes

Virginia Holmes (53) was formerly chief executive of AXA Investment Managers in the UK, and managing director of Barclays Bank Trust Company. She is currently non-executive director of Standard Life Investment Holdings Limited, Post Office Limited and JP Morgan Investment Trust Plc and non-executive director and chair of the investment committee of Alberta Investment Management Corporation in Canada. She became a Director of USS in September 2005.



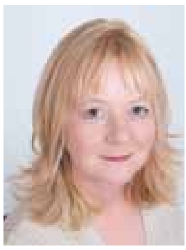
Professor David Eastwood

Professor David Eastwood (54) became Vice-Chancellor of the University of Birmingham in April 2009. Former posts include Chief Executive of HEFCE, Vice-Chancellor of the University of East Anglia (UEA) and Chief Executive of the Arts and Humanities Research Board. Before that he held a Chair in Modern History at the University of Wales Swansea, where he was also Head of Department, Dean and Pro-Vice Chancellor. He was a Fellow and Senior Tutor of Pembroke College (1988-95), and is an Honorary Fellow of St Peter's College, Oxford, from where he graduated in 1980, and of Keble College, Oxford from 2006. He became a Director of USS in 2007.



Joseph Devlin

Joe Devlin (53) 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.



Dr Angela Roger

Dr Angela Roger (58) 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 JNC 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.

Principal officers & advisers

The principal officers and advisers of the trustee company at 1 August 2013 are:

Group Chief Executive Officer
Bill Galvin

Chief Investment Officer
Roger Gray

Chief Financial Officer
David Webster

Head of Policy
Brendan Mulkern

Head of Pensions Operations
Bernadine Steventon

Company Secretary
Ian Sherlock

Interim Head of IT
Colin McAdam

Chief Operating Officer - Investments
Howard Brindle

Actuary
A Tayyebi of Mercer
Birmingham
B1 2JQ

Solicitors
DLA Piper UK LLP
Liverpool
L2 0NH

Auditors
Grant Thornton LLP
Manchester
M3 3EB

Bankers
Barclays Bank Plc
Manchester
M2 1HW

Membership of Committees

The membership at 31 March 2013 of the principal committees was as follows:

Board

Appointed by Universities UK (UUK)
Sir Martin Harris (Chairman), Professor Dame Glynis Breakwell, Professor David Eastwood, D McDonnell
Appointed by the University and College Union (UCU)
J Devlin, Dr A Roger, J W D Trythall
Independent
Professor John Bull, M G Butcher, Dr Kevin Carter, V Holmes, M R Poisson

Finance & Policy Committee

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

Investment Committee

Appointed by the board
V Holmes (Chairman), G Allen, Professor Dame Glynis Breakwell, Professor John Bull, Dr K Carter, A Docherty, R Gillson, Sir Martin Harris, D McDonnell

Audit Committee

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

Remuneration Committee

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

Rules Committee

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

Advisory Committee

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

Nominations & Governance Committee

Appointed by the board
Professor John Bull (Chairman), Professor David Eastwood, Sir Martin Harris, T H Merchant, Dr A Roger

Joint Negotiating Committee

Independent Chairman
Sir Andrew Cubie
Appointed by UUK
Dr A Bruce, P Harding, A D Linfoot, C Vidgeon, W Spinks
Appointed by the UCU
A Carr, G Egan, A Lamb, Professor M Povey, Dr R Brooks

Board Report

Board Report

Key Highlights for the year ended 31 March 2013

- Overall fund assets have increased by 14.0% to £39 billion. (31 March 2012: £34.2billion)
- Scheme liabilities have increased by 14.6% to £50.1billion. (31 March 2012: £43.7billion)
- Funding level at 31 March 2013 was 77% which is consistent with the previous year.
- Operating costs over the year increased by 4% to £72.7million compared with £69.6 million in 2012.
- Scheme changes came into force designed to assist institutions in complying with auto-enrolment requirements.
- A wholly-owned investment management subsidiary company was created and commenced operation in October 2012.
- Work has begun on a holistic funding plan bringing together the three strands of pension scheme funding; the employer covenant, investment returns and actuarial assumptions for valuing liabilities to provide a comprehensive picture of scheme funding.
- The board met six times in the year and attended one strategy session.
- Several activities were carried out to maintain and improve board effectiveness.

Governance

Directors/board membership

The scheme 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 set up to act as corporate trustee of the scheme.

Meeting of the board

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 member; and
- Between three and five independent directors appointed by the board.

There have been a number of movements in board membership throughout the year with Mr Howard Jacobs (an independent board member) coming to the end of his term of office and Mr Rene Poisson being appointed to fill the vacancy. Dr Kevin Carter was appointed in the year as an additional independent board member.

Mr David Guppy concluded his term of office as a UCU-nominated board member and was replaced by Dr Angela Roger.

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 in accordance with governing legislation and regulatory guidance. In order to do this the board must ensure that:

- USS is adequately funded;
- The scheme's investment strategy is appropriate for the scheme's liabilities, having regard to the support available from the scheme's sponsoring employers;
- The trustee company's standards of performance are at a level with which the members and participating institutions are content;
- The scheme continues to meet the needs of the UK higher education sector; and
- USS is compliant with the requirements of the various supervisory and regulatory bodies.

The board appoints a chief executive (CE) to implement its strategies and deliver its business plan through the day to day management of the scheme and of the trustee company. The CE delegates responsibilities to the executive whose key duties are summarised below.

- To provide advice and information to the board in respect of strategic development and business planning;
- To establish, monitor and manage day to day operational arrangements that effectively deliver the strategy and business plan of the board;
- To implement the board decisions relating to the scheme and trustee company; and
- To be accountable to the board.

Board and committee meetings

The board met six times in the year plus an additional strategy session, considering and making decisions in relation to 263 items of business. The average attendance for board meetings was 96%. Attendance figures for individual directors are below:

	Board	Investment	F&PC	Audit	Remuneration	Rules	Nominations
Group meetings held in the year	**6**	**5**	**4**	**5**	**3**	**6**	**4**
Sir Martin Harris	6(6)	4(5)					4(4)
Professor John Bull	6(6)	5(5)	4(4)	5(5)			4(4)
Professor Dame Glynis Breakwell	6(6)	4(5)			1(2)		
Mr Michael Butcher	6(6)			5(5)	2(2)		
Mr Joseph Devlin	6(6)		4(4)	5(5)	2(2)		
Professor David Eastwood	6(6)		3(4)				4(4)
Mrs Virginia Holmes	6(6)	5(5)	2(4)				
Mr David McDonnell	5(6)	5(5)		4(5)	2(2)		
Mr Bill Trythall	6(6)		4(4)			6(6)	
Dr Angela Roger (appointed 01/09/12)	4(4)						2(2)
Mr Rene Poisson (appointed 01/11/12)	3(3)		2(2)				
Dr Kevin Carter (appointed 01/09/12)	4(4)	2(3)					
Mr Howard Jacobs (term ended 30/09/12)*	2(3)		2(2)			6(6)	
Mr David Guppy (term ended 31/08/12)	2(2)	2(2)					2(2)

* Mr Howard Jacobs agreed to continue as chairman of the Rules Committee for one year following his retirement as a board member.

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 annual appraisal of the skills and experience of each committee member against the business requirements and the requirements for trustee knowledge and understanding as set out by the Pensions Regulator;
- An audit of the agreed skills matrix for each committee to ensure that the required skills and experience remain fit for purpose and are met by the committee membership;

- A review of training and development undertaken in the year by directors to ensure appropriate awareness of current issues and best practice; and
- Delivery of a comprehensive induction programme for three new directors.

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

- Risk
- Liability hedging
- Pension benefits and pensions operations
- Directors' duties and responsibilities
- Data security and quality

Review of the year

USS continues to be the pensions service of choice for the higher education sector for the long-term. We want to maintain that position by delivering a service to our members and institutions of the highest quality, whether that means developing systems to run as effectively and efficiently as possible, or working collaboratively with our institutions in an industry faced by an ever changing regulatory environment. Significant initiatives, such as auto-enrolment and taxation changes, pose a number of tough challenges for us. We have responded to these challenges proactively and this has consequentially resulted in operational growth and a degree of inevitable cost.

Auto-enrolment

During the year a number of changes were made to the scheme rules in order to assist participating institutions in meeting their legal obligations in respect of the government's new rules regarding access to workplace pensions, known as 'auto-enrolment'. 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 institutions that participate in USS was 1 March 2013 whilst other institutions will be affected at some point through to 1 February 2018.

To support these changes some amendments were made to USS rules that previously prevented certain groups of now eligible employees from becoming members of USS. With effect from its staging date, an institution may enrol into USS (i) re-employed pensioners and flexible retirees (who take up an additional and separate employment), (ii) variable time employees and (iii) employees in a post that was previously excluded from USS entitlement. This will assist institutions which may have a duty to automatically enrol, automatically re-enrol 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.

USSonline

A full year has passed since USSonline, our administration service for institutions administrators, was rolled out to all institutions. The system has evolved over the past year and has been enhanced based on feedback received from participating institutions. USSonline provides a number of self service options for institutions, for example allowing institutions to provide added years Additional Voluntary Contributions (AVC) quotations to members without referring to USS.

Regulatory environment

The ever changing regulatory environment in which pension schemes operate poses significant challenges. USS dedicates significant time and resource in responding to these challenges and in many ways has set the benchmark for other schemes to follow.

Holistic funding approach

The trustee board has begun some preparatory work ahead of the next formal triennial valuation of the scheme on 31 March 2014. This work includes reviewing and updating the scheme's funding approach through the development of a formal, holistic funding plan. This work will formalise, in a single, integrated form, the trustee board's strategy for meeting members' benefits. It shall inform the ongoing assessment the trustee board makes of the level of investment risk that is sustainable when balanced against the strength of the employer covenant. It will also assess the consequential impact of this 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, and a number of these exchanges took place during the year and will continue to do so as the plan is further developed. In developing the plan, the trustee company has also been liaising with the Pensions Regulator (tPR).

Solvency II

Solvency II presents a considerable risk to most, if not all, defined benefit (DB) schemes, including USS. There has been a strong drive in recent years from the European Commission (EC) to introduce, for pension funds, new solvency rules under the Institutions for Occupational Retirement Provision (IORP) directive in line with Solvency II for insurers. These principles include, amongst other things, additional capital requirements to cover unexpected events based on asset and liability risk. We have been monitoring the review of the IORP directive and, in particular, proposals for revised funding requirements.

In May, the European Commissioner confirmed that reforms to the funding regime for pension schemes would be excluded from changes to the IORP directive. In the immediate future the Commission intends to focus on developing rules to improve governance, transparency and reporting requirements in occupational schemes. However, the issue has not fully concluded. The Commission plans to carry out further research on what, in their view, would be the benefits to pension funds of increasing capital requirements. In addition, the European Pensions Regulator (EIOPA), which advises the Commission, remains steadfast in its approach to reforming the capital requirements pensions.

We remain of the view that Solvency II continues to pose a risk to most, if not all, DB schemes in the UK and would reduce the financial strength of sponsoring employers as substantial increases to pension contributions would be required.

Financial Conduct Authority (FCA)

As part of a corporate re-structure, the employees involved in the investment management activities of USS Ltd, together with the associated company assets and liabilities, were transferred to USS Investment Management Limited (USSIM Ltd), a wholly-owned subsidiary company of USS Ltd. Following authorisation obtained from the Financial Services Authority (now the Financial Conduct Authority, FCA) on 5 September 2012.

Real Time Information (RTI)

New Government requirements mean USS must submit payroll data to HM Revenue & Customs on or before the day pension and salary payments are issued – this is called Real Time Information (RTI). USS will implement RTI in August 2013. Once in place every payroll run will require a full payment submission to be sent to HM Revenue & Customs. In order to facilitate this, the payroll system upgrades for both the pension and group staff payrolls will be completed in July.

Financial Reporting Standard 102 (FRS102)

FRS102 consolidates the existing UK Generally Accepted Accounting Principles (UK GAAP) into a single accounting standard and fundamentally changes the UK's financial reporting framework. Following the issue of FRS102, the Statement of Recommended Practice (SORP) for pension schemes, which provides recommendations for how accounting standards should be applied in the context of the pension sector and how to account for sector specific transactions, is currently in development by the Pensions Research Accountants Group (PRAG). We are liaising with PRAG and will provide input into the development of the SORP in due course.

Under FRS102 pension schemes will need to make new disclosures in respect of investment risk, covering credit and market risks; and additional disclosures relating to actuarial liabilities including information around the significant assumptions and method used to calculate the valuation.

For participating institutions, and as is permitted by current UK GAAP, where an employer is unable to identify its share of assets and liabilities of a multi-employer defined benefit pensions scheme the scheme is accounted for as if it were a defined contribution scheme. This remains largely unchanged under FRS102, compared to current UKGAAP, and is beneficial to the institutions participating in USS as they avoid the burden of having to provide the full disclosures that would otherwise be necessary for a defined benefit scheme.

However, FRS102 will require the recognition of a liability for payments which are due to fund a scheme's deficit under a funding agreement. This will be the first time such a liability will need to be measured, recognised and disclosed in the institutions' balance sheets.

The financial statements will 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 plan and also explain how the liability has been determined.

USS Ltd and USSIM Ltd will need to account for these additional disclosures in their own financial statements, as they are participating employers themselves.

Taxation charges

Annual Allowance

The changes to pensions taxation introduced by the Finance Act 2011 require the trustee company to issue pension saving statements to members who breach the Annual Allowance (AA) of £50,000 per annum from the 2011/12 tax year onwards.

The task to identify which members have accrued more than the AA in the tax year has been significant, and two key elements of the project were to improve the submission of data from employers and the way that it is captured and compiled by the trustee company, and also to develop new processes which automate the required AA calculations.

The first pension savings statements will be issued by 6 October 2013 to members who have breached the AA in either or both of the 2011/12 or 2012/13 tax years.

Further changes to the AA have been announced by the Chancellor of the Exchequer, and with effect from the 2014/15 tax year the lifetime allowance for pension savings will be reduced from £1.5 million to £1.25 million, and the AA will be reduced from £50,000 per annum to £40,000 per annum.

Contracting out changes

This year's budget announced that from 2016 there will be one flat-rate state pension. This replaces the current arrangement of a two-tier state pension. In a move which brings forward the original expected introduction date of 2017, the earnings-related state second pension (S2P) will be abolished and it will not be possible to contract-out of the S2P.

This change will affect individuals in different ways depending on their specific circumstances. In the long-term, the majority of people are predicted to benefit from this change. However, in the short-term people earning between £5,564 and £40,040 will experience a 1.4% reduction in their net pay due to the increase in payment contributions.

Similarly based on current information, our participating institutions will see their NI contributions increase by 3.4% on earnings above £5,564 - there is no upper limit for employers. USS will consider this impact as part of the ongoing work on the overall funding approach and feed it in to next year's valuation.

Financial performance and valuation

Funding position

The most recent triennial valuation of the scheme was 31 March 2011 at which time the net assets of the scheme represented 92% of the scheme's liabilities measured on the current market value of the scheme's assets compared to an actuarial valuation of the amount needed to fund accrued benefits.

Despite the value of the scheme's assets rising strongly from £32.8 bn to £39 bn over the past two years, this has been outpaced by the increased valuation of the scheme's liabilities as UK inflation-linked gilt yields – which are a recognised reference point in calculating pension scheme liabilities – have fallen to historic lows (-0.25% for 30 year gilts at end March 2013). The fall in yields is related to weak economic growth in the UK and globally, the Bank of England's quantitative easing programme and investor perceptions of the UK as a safe haven. With a positive cash flow, increasing membership, and a strong employer covenant USS has been able to pursue a long-term investment strategy and tolerate this level of volatility, although this position is kept under review.

As at 31 March 2013, the estimated funding ratio was 77%, this is the same as the 2012 estimation although the absolute size of the deficit has increased to £11.5bn (with AVCs excluded).

Operating costs

The operating costs for the year amounted to £72,682,000 (2012: £69,628,000), representing an overall increase of 4% compared to the prior year. Membership of USS has continued to grow steadily and during the past twelve months and has increased from approximately 287,954 to 303,060, an increase of 5.2%.

The year ended 31 March 2013 was an extremely busy year for the trustee company. In addition to the day to day administration of the scheme and management of the investments, the company completed a series of business projects and initiatives, whilst proactively managing costs.

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

	2013 £000	2012 £000	Variance £000	Variance %
Personnel costs	30,562	26,186	4,376	17
Premises costs	3,671	3,590	81	2
Investment costs	21,688	21,412	276	1
Other costs	16,761	18,440	(1,679)	(9)
Total	**72,682**	**69,628**	**3,054**	**4**

The largest increase in operating costs relates to personnel costs. This is due to a number of factors. Overall headcount has increased by 13%, primarily due to the continued expansion of the skill set within the investment team and associated legal compliance and control functions within USS Investment Management Limited (USSIM Ltd). In addition extra resource was required to manage the increased administration workload generated by the scheme's growing membership and recent regulatory changes. This includes implementing changes to scheme rules, benefit design, the trustee company's corporate structure and additional staff to work on key projects.

In addition to an increased headcount the Investment Management staff delivered a 14% overall return which included 0.2% more than independent benchmarks, equal to £69million additional returns for the fund. This positive performance triggered larger awards for USS Investment Management staff under the company's incentive plan. The 2008 Long-term Incentive Plan (LTIP) award, which is based on longer-term cumulative fund performance has lapsed and was not paid during the year. Further explanation can be found in the notes to the financial statements of USS Ltd.

The increase in personnel costs has been offset to some degree by savings in other costs.

Corporate group structure

All costs incurred by USSIM Ltd are recharged to USS Ltd generating neither a profit nor a loss in either entity. The operating costs for the period amounted to £26,729,000 and this was recharged to USS Ltd in accordance with the Investment Management and Advisory Agreement (IMA).

Independent covenant assessment

USS Ltd is carrying out some further work looking in detail at the employer covenant, in particular looking at recent changes in the higher education sector which affect institutional funding. This covenant assessment will provide up to date information on the commitment of the sector to the scheme and therefore the capacity of the sector to cover the risks inherent in the investment strategy.

For the most recent triennial valuation in 2011 the trustee board appointed Ernst Young (EY) LLP to provide advice on, and make assessments of, the ability of the scheme's participating employers to support the current and future liabilities of the scheme. EY's report, together with information from the funding councils, was used as the basis for the board's assessment of the strength of the covenant. The overall conclusion was that the covenant remained robust, providing substantial support to the scheme.

The trustee company has retained EY LLP as its external covenant adviser and ahead of the 2014 valuation further assessment work is being done. It is too early in this process to reach any conclusions, but the preparatory work is designed to ensure that the 31 March 2014 valuation can be completed within the fifteen month period allowed.

The proactive approach which has been taken with regard to the development and implementation of the holistic funding plan will provide further evidence for this assessment and forms part of the trustee board's continuous and periodic ongoing monitoring and assessment.

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

Recovery plan

In accordance with the scheme specific-funding regime for defined benefit pension schemes, the fact that a deficit existed at the valuation date meant that the trustee board needed to draw up a recovery plan. The recovery plan sets out the trustee board's plan for eliminating the funding deficit. The plan is 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, and the trustee board's investment strategy and beliefs.

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

The board is aware that current economic circumstances present substantial challenges to pension scheme funding. These have prevailed throughout 2012 and into 2013 and have been aggravated by record low yields on inflation-linked gilts. Whilst the board is able to adopt a longer-term approach to funding the scheme, the present economic difficulties are a concern and the board will continue to monitor closely ongoing developments on scheme funding and press ahead with the preparations for the next formal valuation in 2014 when the recovery plan will be formally reviewed.

Strategic asset allocation review

In recent years, the scheme's strategic asset allocation (SAA) has been progressively diversified. The goal is to reduce asset-liability risk while maintaining expected returns to a substantial degree. The target weight for listed equities has fallen from over 70% at the end of 2009 to 50%. This has funded the build-up of Alternatives assets (spanning private equity and debt, infrastructure, timber and hedge funds) and new allocations to UK inflation-linked gilts, investment grade and emerging market bonds. Following consultation on the Statement of Investment Principles, the board approved scope to build exposure to liability-hedging assets without necessarily reducing exposure to return-seeking assets. Given the valuation of inflation-linked gilt yields and related instruments in quarter one of 2013, this programme started after the year end.

Principal risks and uncertainties

Risk management and internal control systems

The board's expectations for risk management 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 board believes that the systems of internal control at USS are adequate to provide reasonable assurance that risks are being managed appropriately. USS 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.

Other matters

Scheme mergers

There were a number of enquiries during the year regarding the potential merger with USS of a scheme for support staff sponsored by a higher education sector institution, although none actually proceeded to the agreement stage and completion. A merger between a support staff scheme and USS 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. The revised and updated mergers policy is in place and available to higher education institutions, and it stands ready to support any institutions who wish to commence detailed discussions. 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 trustee board's overall policy.

Pensions increases

USS pensions are generally increased in line with increases in 'official pensions' as set out in the Pensions (Increase) Act 1971, although scheme changes introduced from 1 October 2011 introduced limits on such increases in respect of rights that accrue after that date. From April 2013 USS pensions which started in payment before 24 April 2012 were increased by 2.2% representing the increase in the consumer prices index increase over the 12 month period to September 2012. Pensions which commenced after 23 April 2012, and those pensions which contain a proportion of post-October 2011 rights, received a proportionate increase. Deferred pensions and deferred lump sums were increased at the same rate.

Institutions' meeting

The annual meeting with institutions' representatives took place in London in December 2012. A report of the proceedings and meeting content is available on the USS website.

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 four occasions to consider the decisions given by the Head of Pensions Operations at stage one of the internal dispute resolution procedure. Thirteen cases were considered at stage two of the procedure. In all thirteen cases, the officers' decision at stage 1 of the internal disputes resolution procedure was upheld.

Contribution rates

The rates of ordinary contributions payable by members and institutions between 1 April 2012 and 31 March 2013 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

During the year, USS Ltd was notified of approximately 3,500 employees, which equates to 20.8% of new joiners, who became eligible to join the scheme but elected not to do so.

Scheme changes

During the year there have been a number of 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:

- The removal of all references to the funding councils from the scheme rules, amendments to the quorum provisions for the Investment Committee, and the title 'Co-Opted Director' being replaced with 'Independent Director' (seventh deed of amendment);
- The transitional protection for members made redundant was extended by one further year (eighth deed of amendment);
- Specific auto-enrolment changes were implemented (ninth deed of amendment), a subject which is covered in more detail on page 16; and
- The administration of the USS money purchase AVC was simplified (tenth deed of amendment).

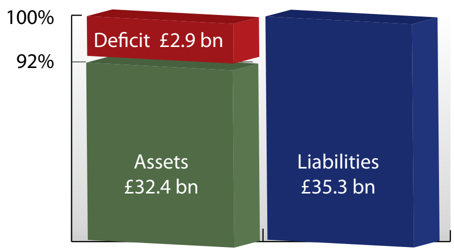
Triennial valuation

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

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

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

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



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.

Data quality and information security

The USS data quality team are responsible for maintaining a high standard of data quality across the entire scheme membership. As well as helping to improve scheme administration the activities of the team also ensure that the trustee company is complying with the tPR's guidelines for record keeping. In late 2012 the team successfully met tPR's requirements for common data standards. In achieving the required standard over three million pieces of member data was assessed resulting in 25,000 updates to member records. The team's focus going forward is on the conditional data requirements detailed in the Regulator's 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 although 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 43 important data items and we are actively progressing with the measurement and correction of any issues as required.

Of equal importance to the quality of our members data is the security of the confidential information used in the course of the scheme administration and investment activities. The USS group information security function has delivered a number of improvement initiatives over the year to help protect this data. Our achievements include the introduction of a new education and awareness programme; this programme has been running throughout the year and is delivering important information to staff on security risks and guidance on how to handle and process data and information securely. By helping to raise awareness amongst staff on the importance of information security the team has been able to identify more security related vulnerabilities and threats. Staff have a key role to play in this, as they are encouraged to report suspected or actual issues to the team for investigation. Our approach has focused on analysing the root cause of any issues, this type of analysis is helping the team to improve security related controls at USS by identifying weak or missing controls before an actual incident occurs.

Auditors

In line with best practice and company policy on the rotation of auditors, the Audit Committee led a tendering process in the year for a new external auditor and in November 2012 selected Grant Thornton UK LLP as auditors for the scheme, trustee company and investment subsidiary replacing KPMG LLP (UK).

In a statement to the Trustee board, KPMG LLP (UK) confirmed that they knew of no circumstances connected with their resignation which affected the interests of members, prospective members or beneficiaries of the Scheme.

Actuaries

With effect from 21 February 2013 Edwin Topper (Mercer Limited) resigned as Actuary to the Scheme and Ali Tayyebi (Mercer Limited) was subsequently appointed.

Under Regulation 5(7) of the Occupation Pension Schemes (Scheme Administration) Regulation 1996, Edwin Topper (Mercer Limited) confirmed that he knew of no circumstances connected with his resignation which significantly affected the interests of members, prospective members or beneficiaries of the Scheme.

Acknowledgements

The chairman would like to thank Mr Howard Jacobs for his contribution to USS matters during his term of office on the board and also on the Finance and Policy and Remuneration Committees. Mr Jacobs continues to chair the Rules Committee as an independent committee member.

The chairman would also like to thank Mr David Guppy for his contribution to USS matters during his term of office on the board and also on the Investment and Nomination Committees.

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. In particular, the board would like to thank Mr Tom Merchant, who retired after serving 10 years in his role as Chief Executive of USS. The board welcomes Mr Bill Galvin as the newly appointed Chief Executive of the Group, who took up office from August 2013. The board also wishes to thank the USS consultants and advisers whose specialist knowledge and experience make a valuable contribution to the company.

It is with sadness that during the year the board learnt of the death of former Chief Executive Mr David Chynoweth.

Sir Martin Harris
Chairman

Investment Report

Key Highlights for the performance year ended 31 March 2013

- Scheme's asset value rose by 14% or £4.8bn over the year.
- Falling UK Gilt yields increased the value of the scheme's liabilities by 14% to £49.8 billion.
- Investment outlook subdued by below trend global growth, deleveraging and doubts about the sustainability of economic policies.
- USS Investment Management authorised by the FCA, USS Ltd de-registered.
- Continued active engagement with regulators, governments and corporates to protect the scheme's interests.

Global market review

Market conditions remained extremely challenging for pension funds, as falling yields on index-linked and conventional government bonds increased the value of pension liabilities. The yield on ten-year UK Index-linked gilts declined a further 1.0% from -0.6% on 31 March 2012 to -1.6% on 31 March 2013, a new all time low, whilst the yield on ten-year nominal gilts declined from 2.2% to 1.8% over the same period. The UK (CPI) inflation rate during the year to 31 March 2013 was 2.8%, a decline from the rate of 3.5% recorded in the prior 12 months.

Despite downward revisions to global growth expectations, equity markets performed strongly with the MSCI World Index rising 15% over the 12 months to end March. UK mid and small cap stocks were particularly strong, rising 24% and 28% respectively, whilst amongst the major international markets Japan rallied 24%. Emerging markets were a notable laggard, rising only 6%, over the period. After a very strong performance in the prior year, government bond indices had more subdued returns with the FTSE Actuaries UK Government Securities Indices returning between 2% and 8% depending on the maturity used. Credit markets and index-linked UK Gilts performed more strongly than nominal government bonds as the corporate yield spreads narrowed and as market implied RPI inflation increased. The iBoxx Sterling Corporate bond index and the FTA over 15 year inflation-linked gilt index both returned 12%. Property, measured by the IPD Large Life & Pensions Property Index rose 3% over the year to end March. Within the Alternative asset classes, hedge funds continued to lag with the HFRI Global Hedge Fund Index rising 4%, whilst private equity performed more in line with the public equity markets.

USS investment management structure

We reported last year that USS Ltd intended to move its investment management operations to a wholly owned subsidiary USS Investment Management Ltd (USSIM). FCA authorisation of USSIM for the conduct of investment management business was received in September 2012 and as a result USS Ltd has been de-registered with the FCA for this activity. USS Ltd continues to be regulated by the Pensions Regulator. USS' investment philosophy remains unchanged as a result of this reorganisation and USSIM only manages assets for USS Ltd – it has no third party clients. USSIM now covers all pre-existing USS Ltd investment management relationships. USS Ltd, via its Investment Committee, retains responsibility for setting the overall strategy for the Scheme, and retains the right, should it deem this necessary, directly to appoint additional managers for all or part of the current USSIM mandate. As the internal investment executive, USSIM is focused on delivering the investment requirements of the scheme rather than having commercial objectives of its own. This supports better alignment of interests than may often be achieved with external managers. However, some areas of investment sought for the scheme may not match USSIM's internal skills, experience or operational capability and it may not be cost-effective or desirable to build the required capability internally. In these circumstances, USSIM will select external managers to undertake investment. USSIM's alternative asset team manages its portfolio with the assistance of external managers and investment advisors. External managers are also used for non-government and emerging market bonds.

The following table shows the investment managers appointed by USSIM, their mandate and the percentage of the total scheme they managed as at 31 March 2013:

	Mandate	% Assets
USSIM actively managed	Multiple	71%
USSIM Alternatives	Multiple external funds and providers	19%
UK Index Fund (advised by HSBC Quantitative Techniques)	FTSE All Share index tracker	5%
BlueBay Asset Management	Euro Investment Grade Credit	1%
Legal & General Investment Management	Sterling Investment Grade Credit	1%
Royal London Asset Management	Sterling Investment Grade Credit	1%
Credit Suisse	Emerging Market Debt (passive)	1%
Investec	Emerging Market Debt (active)	1%
Pictet	Emerging Market Debt (active)	1%

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

The property team at USSIM uses external investment advisors, property management services and some externally managed property funds to assist their work on the USS portfolio. Advisory and property management contracts are competitively re-tendered on a periodic basis every five years and are subject to an interim review after three years. The contracts currently in place are shown in the following table:

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

Summary of the Statement of Investment Principles

The Statement of Investment Principles ("SIP") establishes the broad principles governing the investment policy of the scheme and provides information on other key aspects of the scheme's investment programme. The board reviews the statement at least every three years and 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 written advice from the investment committee, the scheme's external investment consultants and the Scheme actuary and following consultation with the participating employers. The investment committee monitors compliance with this statement at least annually and obtains confirmation from the investment manager that they have exercised the powers delegated to them in keeping with the principles contained in the SIP as far as reasonably practicable.

15 Golden Square, London

The full document can be found on pages 31 to 42. 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 above those in listed equities, while infrastructure and absolute return strategies (focusing on hedge funds aiming to produce positive investment returns even in falling markets) will generally be below those in listed equities. The scheme takes these normal central assumptions into consideration, along with current market valuation levels, the economic environment and other relevant factors when it establishes its strategic asset allocation policy.

During the last financial year, the scheme's new 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, on recommendation from its investment committee and investment advisers, is responsible for appointing custodians for the scheme's assets.

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

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

Investment Performance

Investment performance shown below is on a calendar year rather than financial year basis. This is due to the frequency of revaluation of the scheme's less liquid assets and to the decision to measure the property portfolio against an industry standard index which is only calculated annually with a December year end. Unless otherwise stated, the commentary in this section refers to calendar years i.e. 2012 is the year to December 2012.

The total fund rose 11.4% in 2012 outperforming its strategic asset allocation benchmark by 0.5%. Over the last five years the total fund has returned 1.9% p.a. underperforming its benchmark over the period by -0.2%. The HSBC-advised UK index fund slightly outperformed its benchmark during the year and over five years. The external managers in investment grade non-government bonds who were appointed in 2011 outperformed overall in 2012, as did the external managers in emerging market debt who were appointed in 2012.

The performance of the individual managers and the total fund for 2012 and the last five years is shown in the table below:

	2012			Five Years (annualised)		
	Fund	**Benchmark**	**Relative**	**Fund**	**Benchmark**	**Relative**
USSIM	+11.4%	+10.9%	+0.5%	+1.6%	+1.8%	-0.2%
UK Index Fund	+12.3%	+12.3%	+0.0%	+2.6%	+2.5%	+0.0%
Total External Fixed Income	+12.7%	+11.9%	+0.7%			
Total Fund	**+11.4%**	**+10.9%**	**+0.5%**	**+1.9%**	**+2.1%**	**-0.2%**

The following table shows the performance of the individual managers and the total fund for the financial year ending March 2013:

	Financial Year to March 2013		
	Fund	**Benchmark**	**Relative**
USSIM/Total Fund	+13.3%	+13.1%	+0.2%
UK Index Fund	+16.9%	+16.8%	+0.1%
Total External Fixed Income	+12.3%	+11.8%	+0.5%

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 2013. The table excludes the money purchase AVC programme, which is separately managed by Prudential.

%	Fund	Benchmark (SAA)	Active Position	Tolerance Range
Equities	50.3	50.5	- 0.2	+/-7.5
Developed Markets	42.1	42.0	+ 0.1	
UK	17.0	16.8	+ 0.2	
N America	7.3	7.6	- 0.3	
Europe	10.3	10.1	+ 0.2	
Pacific inc Japan	7.5	7.6	- 0.1	
Emerging Markets	8.2	8.5	- 0.3	
Alternatives	18.8	18.8	–	+/-10
Private Capital	11.1	11.1		
Infrastructure	3.6	3.6		
Absolute Return	4.1	4.1		
Fixed Income	20.2	22.3	- 2.1	+/-5
Global Government	11.2	12.8	- 1.5	
Liability Hedging Portfolio	4.0	4.5	- 0.5	
Investment Grade Credit	2.6	2.5	+ 0.1	
EMD	2.4	2.5	- 0.1	
Property	6.5	6.5	-	+/-5
Cash	2.4	2.0	+ 0.4	0 -10
TAA	1.6	0.0	+ 1.6	
LDI	0.2	0.0	+ 0.2	
Total Fund	**100.0**	**100.0**	-	

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

The investment committee takes the liquidity of the asset classes together with the liability and cash flow profile of the scheme into consideration when it recommends the strategic asset allocation to the board. The investment committee periodically reviews the overall allocation to illiquid assets (i.e. property and some alternative assets). Illiquid assets presently make up 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 higher returns and diversification which are available from less liquid asset classes.

Summary investment exposures as at 31 March 2013

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

£m	Internally Managed – direct and indirect/advised		Externally Managed - direct		Total	
	USSIM	Index Fund	Capital Int'l	Prudential	31 March 2013	31 March 2012
	Active	Passive	Active	Active		
Equities					**19,352**	**19,077**
Developed Markets						
UK	4,547	1,683	-	-	6,230	6,171
Overseas	9,751	94	-	-	9,845	9,974
Emerging Markets	3,277	-	-	-	3,277	2,933
Alternatives					**7,325**	**5,719**
Private Capital	4,418	-	-	-	4,418	3,545
Infrastructure	1,104	-	-	-	1,104	788
Absolute Return	1,556	-	-	-	1,556	1,199
Others	248	-	-	-	248	187
Fixed Income					**9,123**	**5,434**
Global Government	5,967	-	-	-	5,967	3,344
Liability Hedging Portfolio	1,882	-	-	-	1,882	1,067
Investment Grade Credit	977	-	-	-	977	865
Other	296	-	-	-	296	158
Property	2,487	-	-	-	2,487	2,570
Cash and Equivalent	-35	-	-	-	-35	733
Money Purchase AVC Investments	-	-	-	390	390	361
Other Investment Balances	204	-	-	-	204	226
Total Fund 2013	**36,678**	**1,777**	**0**	**390**	**38,845**	**-**
Total Fund 2012	**30,568**	**1,589**	**1,602**	**361**	**-**	**34,121**

Note: The table may not sum due to rounding.

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

Money Purchase AVCs

The board has selected the Prudential to be the scheme's money purchase AVC provider. The Investment Committee reviews the range of funds made available to AVC participants to ensure it offers an appropriate range of investment choices.

Summary of the Investments

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

	Value £m	%
UK Treasury Gilt 3.75% 22/07/2052	568.4	1.46
UK Treasury Gilt 3.25% 22/01/2044	547.3	1.41
UK Treasury 4.25% 07/12/2040	504.2	1.30
HSBC Holdings	466.2	1.20
Royal Dutch Shell	458.7	1.18
UK Treasury 0.75% IL 22/03/2034	420.9	1.08
UK Treasury 4.25% 07/09/2039	339.4	0.87
UK Treasury 0.125% IL 22/03/2044	325.9	0.84
UK Treasury 6% 07/12/2028	312.0	0.80
Vodafone Group	305.5	0.79
UK Treasury 0.625% IL 22/03/2040	291.1	0.75
UK Treasury 4.75% 07/12/2030	281.5	0.72
GlaxoSmithKline	259.4	0.67
UK Treasury 4.5% 07/09/2034	255.2	0.66
UK Treasury 4.25% 07/03/2036	244.0	0.63
BP PLC	235.9	0.61
UK Treasury 0.25% IL 22/03/2052	230.8	0.59
Nestle	204.7	0.53
British American Tobacco	203.6	0.52
Rio Tinto	171.3	0.44

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

The scheme strives to integrate environmental, social and governance issues across its asset classes and to be a leader in responsible investment, regularly working in collaboration with other international investors to engage with both companies and policy makers.

Next, Whiteley

USSIM has been involved in a number of initiatives addressing some systemic flaws in the investment system. A key focus for 2012 has been our work on improving the audit function of investee companies, where we have led a global coalition of long-term investors seeking to highlight our concerns around auditor independence and audit quality to senior representatives of regulatory bodies and companies. USSIM has also been involved in Professor John Kay's review on UK Equity Markets and Long-Term Decision Making which culminated in the USSIM CEO appearing before a Commons Select Committee on this issue. Finally, another key project has been our work with the Department of Business Innovation and Skills (BIS) on UK regulatory changes which will result in the introduction of a binding vote on remuneration policy.

The scheme's RI policy applies to all assets, including those managed by external managers appointed by USSIM. USS believes that pension funds should push for those who invest on our behalf to act as responsible investors. This is evident in the due diligence processes for private equity, hedge funds and infrastructure projects applied within USSIM all of which contain an RI component. For example, we seek to ensure that the boards of potential hedge fund investments have the requisite skills, capability, capacity and independence to represent our interests effectively. We have worked with the key regulators seeking better disclosure of relevant information to facilitate this level of due-diligence. The need for broad due diligence work has increased as USSIM builds its direct and co-investment activity in less liquid asset classes which may carry a higher public profile and reputational risk to the scheme.

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

Awards

USS has been frequently recognised in the awards given by trade publications. Over the past two years, it has received awards for European Institutional Investor of the Year, Best Investor in Property and in Alternative Asset Classes, and most recently the professionalism and innovation of the Alternatives investment team has been recognised by Professional Pensions as the "Best Use of Alternatives" in their Pension Scheme of the Year Awards 2012.

V Holmes
Chairman

Statement of Investment Principles

14 February 2013

1. Introduction

This statement details the principles governing the investment policy of the Universities Superannuation Scheme (the Scheme). It has been prepared by the Trustee Company, Universities Superannuation Scheme Limited (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 Limited ("USSIM"). This relationship is governed by an investment management agreement covering discretionary investment management, certain investment advisory and ancillary services. USSIM recovers its cost from the Scheme via the Trustee Company.

The majority of the fund's investments are currently managed internally by USSIM. This is generally supported by USSIM'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. USSIM 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 USSIM internally. Index tracking is used as appropriate to reduce investment management costs and risk relative to benchmark.

The alternative asset programme is managed by USSIM, 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 USSIM, 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 USSIM 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 USSIM;
- 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 USSIM and, if applicable, the delivery of services by other managers;
- recommending to the board any necessary changes to the investment management agreement with USSIM;
- 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.

USSIM'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 USSIM 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 4. The permitted ranges for each asset class are intended to ensure that the investment risk remains appropriate. The investment committee allows USSIM to deviate tactically from the strategic asset allocation within certain specified limits. The investment committee may mandate USSIM 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 USSIM 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 USSIM 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.

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.

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.

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.

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.

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 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.

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).

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 IPO 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 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 USS 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 the second largest pension fund 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 long-term real returns on asset classes

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		**9.0%**
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.

For the latest published asset allocations see the investment report on page 24.

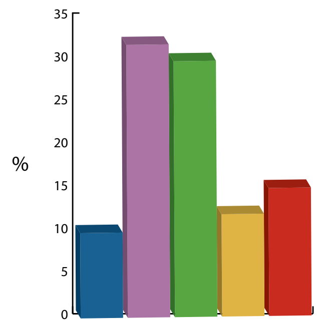
Membership Statistics

Number of members

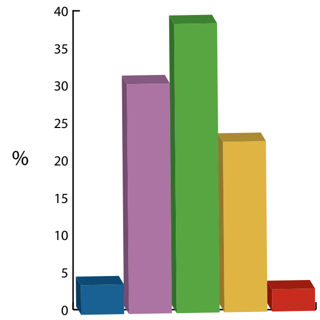
	31/03/2009	31/03/2010	31/03/2011	31/03/2012	31/03/2013
Pensioners	42,935	46,268	49,251	52,910	55,619
Deferred	78,751	83,201	88,370	93,951	98,975
Active	133,353	137,932	139,931	141,093	148,466
Total	**255,039**	**267,401**	**277,552**	**287,954**	**303,060**
Growth on previous year		**+4.85%**	**+3.80%**	**+3.75%**	**+5.25%**

Age profiles as at 31 March 2013

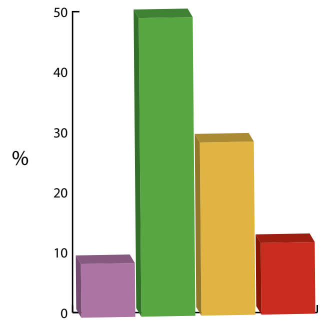
Actives		
16 - 30	15,389	10%
31 - 40	48,027	32%
41 - 50	44,775	30%
51 - 55	18,028	12%
56 & over	22,247	15%
Total	**148,466**	



Deferred		
21 - 30	4,397	4%
31 - 40	30,296	31%
41 - 50	38,938	39%
51 - 60	22,383	23%
61 & over	2,961	3%
Total	**98,975**	



Pensioners		
50 & under	147	less than 1%
51 - 60	4,766	9%
61 - 70	28,041	50%
71 - 80	16,088	29%
81 & over	6,577	12%
Total	**55,619**	



Summary of movements

Details	University Institutions	Non-University Institutions	Totals
Total members at 31/03/2012	135,871	5,222	141,093
New Members	16,551	645	17,196
Retirements			
- Ill-health	96	8	104
- Other	1,812	74	1,886
Deaths	86	1	87
Leavers and withdrawals			
- Refunds	423	85	508
- Deferred/Undecided	6,996	190	7,186
- Retrospective *	52	0	52
Total active members at 31/03/2013	**142,957**	**5,509**	**148,466**

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

In addition USS Ltd was notified during the year of 3,583 employees who became eligible to join the scheme but elected not to do so.

There are 20,459 active members of the Career Revalued Benefits (CRB) Section.

Pensioner Members	University Institutions	Non-University Institutions	Totals
Total pensioners at 31/03/2012	**51,393**	**1,517**	**52,910**
New Pensioners	3,394	147	3,541
Deaths	819	13	832
Total pensioners at 31/03/2013	**53,968**	**1,651**	**55,619**

In addition at 31/03/2013, there were 9,827 pensions being paid to spouses and dependants and 896 annuities being paid to dependent children.

Deferred pensioners not yet receiving a pension totalled	**98,975**

Ex-spouse participants
At 31/03/2013, 665 ex-spouse participants have benefits within the scheme in their own right as a result of pension sharing, of whom 68 are now in receipt of their pension and are included in the pensioner member summary above.

Number of members with multiple appointments as at 31/03/2013	**2,231**

USS Accounts

Fund Account for the year ended 31 March 2013

	Note	2013 £m	2012 £m
Contributions and benefits			
Contributions receivable	3	1,539.6	1,465.8
Premature retirement scheme receipts		8.2	13.4
Transfers in	4	96.0	109.9
		1,643.8	**1,589.1**
Benefits payable	5	1,408.8	1,408.3
Payments on account of leavers	6	31.7	30.7
Administration costs	7	21.5	21.5
		1,462.0	**1,460.5**
Net additions from dealings with members		**181.8**	**128.6**
Returns on investments			
Investment income	8	1,045.8	832.8
Change in market value of investments	9	3,588.6	541.9
Investment management expenses	10	(51.2)	(48.1)
Net returns on investments		**4,583.2**	**1,326.6**
Net increase in the fund during the year		**4,765.0**	**1,455.2**
Fund at start of year		**34,234.9**	**32,779.7**
Fund at end of year		**38,999.9**	**34,234.9**

The notes on pages 50 to 66 form part of these financial statements.

Statement of net assets as at 31 March 2013

	Note	2013 £m	2012 £m
Investment assets			
Securities	13	26,518.1	21,837.5
Pooled investment vehicles securities	14	7,162.8	6,482.4
Pooled investment vehicles property	14	834.9	807.1
Derivatives	15	607.4	204.4
Property	17	1,652.0	1,763.1
Cash deposits		1,616.1	2,538.0
Money purchase AVC investments		389.8	361.2
Other investment balances	18	421.7	449.4
		39,202.8	**34,443.1**
Investment liabilities			
Derivatives	15	(139.8)	(99.2)
Other investment balances	19	(217.8)	(222.4)
		(357.6)	**(321.6)**
Net investment assets		**38,845.2**	**34,121.5**
Current assets	**20**	**251.0**	**219.6**
Current liabilities	**21**	**(96.3)**	**(106.2)**
Total net assets, representing the fund balance		**38,999.9**	**34,234.9**

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the summary funding statement and certificate of technical provisions on pages 71 to 76 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 48 to 66 were approved by the trustee, Universities Superannuation Scheme Limited, on 26 September 2013 and were signed on its behalf by

Sir Martin Harris
Chairman

Professor John Bull
Director

The notes on pages 50 to 66 form part of these financial statements.

Notes to the Financial Statements for the year ended 31 March 2013

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 (USS Ltd) owns the share capital of a number of special purpose companies to aid the efficient administration of the 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, 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 accrual basis from the later of the retirement date and the date the scheme is advised for 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.

Property

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

Foreign currencies

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

Transfers

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

Investments

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

The current values are as follows:

(a) Quoted securities	- at closing prices; these prices may be last trade prices or bid market prices depending on the convention of the stock exchange on which they are quoted;
(b) Fixed interest securities	- stated at their 'clean' prices, with accrued income accounted for within investment income;
(c) Unquoted securities (including most investments in hedge funds, private equity and infrastructure (both direct and via pooled vehicles including those entities which have been excluded from consolidation on the basis of non-materiality))	- at valuations based on published prices, the latest information available from management accounts or audited accounts, or at cost less any provision for impairment;
(d) Property	- on the basis of open market value as at the year end date determined in accordance with the Royal Institute of Chartered Surveyors' Valuation - Professional Standards (2012). The properties have been valued by an independent external valuer, CB Richard Ellis Ltd;
(e) Pooled investment vehicles	- at unit prices or values based on the market valuation of the underlying assets;
(f) Money purchase AVC investments	- at net asset value provided by the AVC provider at the year end date.

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

Derivatives

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

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

Futures

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

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

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

Forward foreign exchange contracts

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

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

Options

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

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

Swaps

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

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

	2013 £m	2012 £m
Main section		
Employers' contributions	982.9	950.8
Employers' salary sacrifice contributions	356.6	311.8
Members' basic contributions	70.6	67.6
Members' additional voluntary contributions	49.7	51.3
	1,459.8	**1,381.5**
Supplementary section		
Supplementary section contributions	22.3	22.1
Money purchase AVCs		
Members' additional voluntary contributions	57.5	62.2
	1,539.6	**1,465.8**

The scheme offers two AVC facilities:

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

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

Individual members' contributions are deducted from their salaries and paid direct to the Prudential by the institutions. The contributions are invested through the Prudential on behalf of the individuals concerned to provide additional benefits within the overall limits laid down by HMRC.

4. Transfers-in

	2013 £m	2012 £m
Individual transfers-in	89.1	102.9
Group transfers-in	6.9	7.0
	96.0	**109.9**

5. Benefits payable

	2013 £m	2012 £m
Main section		
Pensions	1,128.4	1,037.8
Lump sums on or after retirement	250.6	338.0
Lump sums on death in service	14.3	15.5
	1,393.3	**1,391.3**
Supplementary section		
Pensions	12.7	11.7
Lump sums on or after retirement	-	1.2
Lump sums on death in service	1.9	2.2
	14.6	**15.1**
Money purchase AVCs		
Pensions	46.0	61.4
Lump sum death benefits	0.4	1.0
Transferred to USS	(45.5)	(60.5)
	0.9	**1.9**
	1,408.8	**1,408.3**

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

6. Payments on account of leavers

	2013 £m	2012 £m
Individual transfers to other schemes	29.8	28.9
Payments for members joining state scheme	0.7	0.6
Refunds to members leaving service	1.2	1.2
	31.7	**30.7**

7. Administration costs

	2013 £m	2012 £m
Personnel costs	11.2	9.4
Pensions Protection Fund levies	3.5	4.8
Premises costs	1.0	1.0
Other costs	5.8	6.3
	21.5	**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 Limited : Registered No. 1167127).

8. Investment income

	2013 £m	2012 £m
Dividends from UK equities	208.5	231.5
Net property income	103.1	94.6
Income from pooled investment vehicles	89.7	59.7
Dividends from overseas equities	353.8	286.4
Income from UK fixed interest securities	86.6	61.9
Income from overseas fixed interest securities	102.8	89.2
Interest on cash deposits	33.8	12.9
Interest from money purchase AVCs	0.3	0.2
Other income	82.2	8.8
	1,060.8	**845.2**
Irrecoverable withholding tax	(15.0)	(12.4)
	1,045.8	**832.8**

9. Change in market value of investments

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

	Market value 2012	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 2013
	£m	£m	£m	£m	£m
Securities	21,837.5	22,739.2	(20,747.7)	2,689.1	26,518.1
Pooled investment vehicles-securities	6,482.4	3,566.8	(3,625.9)	739.5	7,162.8
Pooled investment vehicles-property	807.1	75.0	(83.4)	36.2	834.9
Derivatives	105.2	175,445.7	(175,264.2)	180.9	467.6
Property	1,763.1	70.3	(119.2)	(62.2)	1,652.0
Money purchase AVC investments	361.2	58.2	(46.7)	17.1	389.8
Cash deposits	2,538.0	-	(909.9)	(12.0)	1,616.1
	33,894.5	201,955.2	(200,797.0)	3,588.6	38,641.3
Other investment balances	227.0	-	-	-	203.8
Total	**34,121.5**	-	-	-	**38,845.1**

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 £231.0m from forward currency contracts, which are used to hedge the currency risk relating to overseas investments (see note 16). These are offset by falls in the values of the corresponding overseas assets. Turnover in derivatives primarily represents the rolling of these forward currency contracts.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £19.4m (2012: £27.8m). In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

10. Investment management costs

	2013 £m	2012 £m
Investment costs		
Securities research costs	9.0	9.7
Securities management		
External manager base fees	3.4	4.3
External manager performance fees	-	0.1
Professional fees	2.1	0.8
	14.5	**14.9**
Property management		
External manager fees	2.0	1.9
External manager performance fees	0.2	0.3
Rent review and letting fees	0.8	0.6
Other	0.1	-
	3.1	**2.8**
Legal and professional fees	2.3	2.3
Custodial services	1.8	1.3
	21.7	**21.3**
Other costs		
Personnel costs	19.4	16.7
Premises costs	2.6	2.6
Sundry costs	7.5	7.5
	29.5	**26.8**
	51.2	**48.1**

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

Investment management costs comprise all costs directly attributable to the scheme's investment activities, including the operating costs of the 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

	2013 £m	2012 £m
Personnel costs		
Included in administration costs	11.2	9.4
Included in investment management costs	19.4	16.7
	30.6	**26.1**
Analysed as:		
Wages and salaries	22.7	19.4
Pension costs	3.3	2.8
Social security costs	2.2	1.9
Other	2.4	2.0
	30.6	**26.1**

Included above are the emoluments of the chief executive comprising salary and benefits amounting to £291,000 (2012: £261,000). As at 31 March 2013 his accrued benefits under the defined benefits scheme were £33,000 (2012: £29,000).

Universities Superannuation Scheme Limited puts in place salary and reward packages which are designed to enable it to recruit and retain suitably qualified and talented individuals. In addition to base salary and benefits package, some staff participate in incentive schemes. The main plans relate to the London Investment Office. There are two main plans in operation, an annual incentive plan and a long-term incentive plan (LTIP). Payments under the annual incentive plan are linked to the individual's performance, the performance of their own mandate and the overall investment performance of the scheme. Investments performance is measured against the relevant benchmark over 2 and 5 year timeframes. Included within wages and salaries is £6,666,000 (2012: £6,208,000) in respect of London Investment Office annual incentive plans and associated national insurance contributions. Part of the annual incentive plan is deferred for a period of three years to encourage the retention of key staff.

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

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

	2013	2012
£100,001-£110,000	7	2
£110,001-£120,000	8	6
£120,001-£130,000	3	4
£130,001-£140,000	6	7
£140,001-£150,000	3	3
£150,001-£160,000	5	5
£160,001-£170,000	4	2
£170,001-£180,000	4	4
£180,001-£190,000	2	0
£190,001-£200,000	2	4
£200,001-£210,000	4	1
£210,001-£220,000	1	1
£220,001-£230,000	0	2
£230,001-£240,000	2	4
£250,001-£260,000	2	2
£270,001-£280,000	1	2
£280,001-£290,000	0	1
£310,001-£320,000	1	1
£320,001-£330,000	1	1
£370,001-£380,000	0	1
£450,001-£460,000	1	0
£600,001-£610,000	1	0
£810,001-£820,000	0	1

Figures for both 2012 and 2013 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

	2013 £m	2012 £m
Quoted		
UK equities	5,938.2	5,784.5
Overseas equities	12,561.9	11,286.9
UK fixed interest - public sector quoted	3,451.5	821.4
UK index linked - public sector quoted	1,813.3	1,066.6
UK fixed interest - other	512.1	217.5
Overseas fixed interest - public sector quoted	1,785.3	2,329.0
Overseas index linked - public sector quoted	142.1	176.7
Overseas fixed interest - other	313.7	154.9
	26,518.1	**21,837.5**

14. Pooled investment vehicles

	2013 £m	2012 £m
Securities		
Managed Funds and Limited Partnerships	6,652.3	5,991.5
Unit Trusts	-	34.9
Insurance Policies	510.5	456.0
	7,162.8	**6,482.4**
Property		
Unit Trusts	440.1	487.5
Property companies	20.9	21.0
Limited Partnerships	373.9	298.6
	834.9	**807.1**
	7,997.7	**7,289.5**

15. Derivative contracts

		2013 £m	2012 £m
Assets			
Options	16 (a)	0.4	-
Futures contracts	16 (b)	32.2	24.9
Swaps	16 (c)	473.3	-
Forward foreign exchange contracts	16 (d)	101.5	179.5
		607.4	**204.4**
Liabilities			
Options	16 (a)	(1.3)	-
Futures contracts	16 (b)	(41.1)	(86.6)
Swaps	16 (c)	(1.3)	-
Forward foreign exchange contracts	16 (d)	(96.1)	(12.6)
		(139.8)	**(99.2)**

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.

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 2013. These valuations will not necessarily reflect the fair values that will be realised on maturity or sale of the various investments.

a) Options (exchange traded)

Type of option	Notional amount of outstanding contracts £m	Asset £m	Liability £m
SX5E Index options	33.3	0.4	(1.0)
Equity option	1.1	-	(0.3)
	34.4	**0.4**	**(1.3)**

The notional amount of outstanding contracts represents the value of underlying stock protected by the options. The contracts have expiry dates of up to three years after the year end.

b) Futures (exchange traded)

Type of future	Economic exposure £m	Asset £m	Liability £m
UK equities	358.8	-	(3.0)
Overseas equities	1,684.0	20.5	(29.0)
UK fixed interest	799.0	9.7	(2.2)
Overseas fixed interest	811.6	-	(6.9)
Commodities	42.5	2.0	-
	3,695.9	**32.2**	**(41.1)**

The economic exposure represents the notional value of stock purchased under the futures contract and is therefore subject to market movements. The contracts have expiry dates of up to three months after the year end, except for certain Eurostoxx 50 futures which have expiry dates of up to three years after the year end.

c) Swaps (OTC)

Contract	Expiration	Nature of Swap	Notional Principal	Asset £m	Liability £m
Bond Total Return	16 months	CS EM Bond Index	423.8	471.3	-
Equity Total Return	< 18 months	S&P Index for LIBOR	405.0	1.9	(0.6)
Interest Rate	9 months - 10 years	Fixed for Floating and Floating for Fixed	84.6	0.1	-
Dividend Swap	1 - 3 years	S&P Index for LIBOR	2.3	-	(0.7)
			915.7	**473.3**	**(1.3)**

d) Forward foreign exchange (OTC)

Currency bought	Currency sold	Notional Principal £m	Asset £m	Liability £m
EUR	GBP	113.2	-	(2.0)
EUR	JPY	54.7	-	(1.3)
EUR	USD	15.4	-	(0.2)
EUR	OTHER	279.1	-	(1.0)
GBP	AUD	851.7	0.4	(0.6)
GBP	CAD	112.7	-	(0.6)
GBP	EUR	2,450.2	49.9	(0.6)
GBP	JPY	1,091.2	1.1	(5.4)
GBP	USD	5,368.0	22.8	(73.9)
GBP	OTHER	785.9	6.9	(0.8)
JPY	AUD	6.0	-	-
JPY	GBP	99.5	0.8	-
USD	AUD	350.6	-	-
USD	CAD	64.9	2.4	-
USD	EUR	35.3	0.2	-
USD	GBP	82.3	-	(0.1)
USD	JPY	41.8	-	(0.9)
USD	OTHER	640.0	4.7	(3.0)
OTHER	AUD	94.0	3.2	-
OTHER	EUR	16.8	-	(0.1)
OTHER	USD	627.8	9.1	(3.9)
OTHER	OTHER	140.7	-	(1.7)
		13,321.8	**101.5**	**(96.1)**

All of the above contracts settle within one year.

17. Property

	2013 £m	2012 £m
UK completed properties	1,644.2	1,703.6
UK developments in progress	7.8	59.5
	1,652.0	**1,763.1**
Properties analysed by type:		
Freehold	1,372.1	1,428.6
Leasehold	279.9	334.5
	1,652.0	**1,763.1**

The completed properties and developments in progress have been valued on the basis of market value as at 31 March 2013 and 31 March 2012 for accounts purposes by CB Richard Ellis Ltd acting as independent valuers. The valuations have been undertaken in accordance with the RICS Valuation - Professional Standards (2012).

18. Other investment balances (assets)

	2013 £m	2012 £m
Amount due from stockbrokers	187.8	59.6
Dividends and accrued interest	146.5	133.3
Margin balances	87.4	256.5
	421.7	**449.4**

19. Other investment balances (liabilities)

	2013 £m	2012 £m
Amount due to stockbrokers	(174.9)	(189.9)
Margin balances	(42.9)	(32.5)
	(217.8)	**(222.4)**

20. Current assets

	2013 £m	2012 £m
Contributions due from institutions: - employers' contributions	91.5	77.9
- members' basic contributions	34.1	34.1
- members' additional voluntary contributions	3.6	3.6
Other debtors	47.0	67.6
Cash at bank and in hand	74.8	36.4
	251.0	**219.6**

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

	2013 £m	2012 £m
Rents & service charges received in advance	(42.1)	(28.5)
Amount due on property purchases	(1.5)	(2.0)
Benefits payable	(41.0)	(46.1)
Taxation creditor	(4.6)	(4.2)
Other creditors	(1.8)	(14.8)
Due to trustee company	(5.3)	(10.6)
	(96.3)	**(106.2)**

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.

	2013 £m	2012 £m
Value of stock on loan at 31 March	1,225.5	2,504.9
Value of collateral held at 31 March	1,308.0	2,662.0

23. Financial commitments

	2013 £m	2012 £m
Property		
Contracts placed but not provided for	16.1	70.7
Pooled investment vehicles - securities		
Outstanding commitments to private equity partnerships	2,754.9	2,333.6

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. 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 £21.6 million and £51.2 million respectively (2012: £21.5 million and £48.1 million), with a balance due from the scheme of £5.3 million as at 31 March 2013 (2012: £10.6 million). Additionally, a number of the directors are members of the governing bodies of participating institutions, in addition to their membership of the board of the trustee company. Where applicable, those directors contribute to and benefit from the scheme on the same terms as other members.

Statement of Trustee's Responsibilities for the financial statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice, 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.

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 26 September 2013.

Sir Martin Harris
Chairman

Professor John Bull
Director

Statement of Trustee's Responsibilities in respect of contributions

The trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions (other than voluntary contributions) payable towards the scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid. The trustee is also responsible for keeping records of contributions received in respect of any active member of the scheme, and for ensuring that contributions are made to the scheme in accordance with the schedule of contributions. Where breaches of the schedule occur the trustee is required by the Pensions Act 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 2013

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 2012 to 31 March 2013 under the schedule of contributions certified by the actuary on 22 September 2011 (and subsequently updated by the schedule issued by the scheme actuary on 15 June 2012). The scheme auditor reports on contributions payable under the schedule in their auditors' statement about contributions.

Contributions payable under the schedule in respect of the scheme year

Employer	**£m**
Normal contributions	1,322.9
Salary sacrifice contributions	-
Special contributions	0.3
Additional contributions	24.4
Member	
Normal contributions	92.9
Additional contributions	0.0
Contributions payable under the schedule (as reported on by the scheme auditor)	**1,440.5**

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	1,440.5
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)	107.3
Total contributions (including premature retirement scheme receipts) reported in the financial statements	**1,547.8**

Signed on behalf of the trustee on 26 September 2013.

Sir Martin Harris
Chairman

Professor John Bull
Director

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 2013 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).

Respective responsibilities of trustees and auditor

As explained more fully in the Trustees' Responsibilities Statement on page 67, 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 non-financial information in the rest of the annual report to identify material inconsistencies with the audited financial statements. 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 2013, 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
October 2013

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

We have examined the Summary of Contributions to the Universities Superannuation Scheme year ended 31 March 2013 which is set out on page 68.

Respective responsibilities of trustees and the auditor

As explained more fully in the Trustees' Responsibilities Statement on page 68 the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of 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 2013 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
October 2013

Summary Funding Statement

Summary Funding Statement as at 31 March 2013

Overview

The summary funding statement is issued each year to scheme members to explain the scheme's latest financial position. In this statement you will find an update on how the scheme's assets compare with the value of the scheme's liabilities – the amount needed to pay future pensions and other benefits given prevailing market conditions - as at 31 March 2013. It also includes an explanation of how the scheme funding ratio has changed since the last full financial assessment (March 2011), and an overview of the trustee's funding plans for the scheme.

USS pensions are backed by the employers of the higher education sector and by the funds invested in the pension scheme. The scheme's investments have performed well since 2011. However, there is continuing uncertainty in the world's economic markets, which influences the financial markets' view on long-term investment prospects. These uncertainties have meant that the value currently placed on the liabilities has increased substantially since the last valuation largely due to the fall in gilt yields, driven down by a combination of quantitative easing and the UK's safe haven status in these difficult economic times. Market based valuations – of both assets and liabilities – have experienced significant volatility over the last five years, and this continues; the £2.9 billion deficit reported at the last full financial assessment in 2011 had increased to £11.5 billion as at March 2013, but had reduced to £7.9 billion at the end of June 2013.

The USS scheme has been able to tolerate this level of volatility because of the substance of the employers who underwrite the scheme's liabilities, and their commitment to the scheme. In preparation for the next full financial assessment of the scheme (which takes place every three years and will take place in March of next year) the trustee board is working with the sponsoring employers to confirm that the reliance the trustee board places on this support as part of its funding strategy remains prudent. This is an important part of the trustee board's ongoing governance of the scheme and the effective management of the risk associated with these long-term pension commitments.

Members can be reassured that USS is a long-term scheme supported by substantial employers that can support their commitment to providing the promised benefits.

The law specifies a number of requirements for the content of this statement and how some of the details should be expressed, and this statement covers those requirements whilst presenting the relevant information in a form designed to be helpful and understandable.

How does USS work?

USS delivers a defined set of benefits as set out in the scheme rules. The financing of these benefits is provided by 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 into the future, as well as the operating costs for the scheme.

How is the financial position of the scheme measured?

One 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. There are however uncertainties inherent in estimating the current value of accrued liabilities, for example, for how long a 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 the benefits already accrued by scheme members.

A recognised starting point which the trustee company, in common with most UK trustee bodies, uses for determining the assumed rate of return on investments is the yield on UK government bonds, or gilts. This is often referred to as a risk-free rate, and anticipated returns on other assets are often benchmarked to the returns on gilts. The gilts rate is therefore an important component of calculating the current value of the scheme's liabilities. The uncertain economic climate and, amongst other things, the quantitative easing policy undertaken by the Bank of England has resulted in historically low levels of gilt yields in the last few years which in turn has resulted in a higher current value of those liabilities. In simple terms, £100 invested in gilts in March 2013 is expected to produce smaller future returns compared with £100 invested in March 2011 (or indeed March 2012).

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 undertaken in 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 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 assumes 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 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.

What was the position at the last 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. The funding position on a buy-out basis fell to 50%.

During the last 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 have meant the value placed on the scheme's liabilities also increased substantially in the year (by £6.4 billion, an increase of 14.6%).

Therefore, this year 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 is a slight improvement on the 2012 figure.

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	June 2013 update
Assets	£32.4bn	£33.9bn	£38.6bn	£37.9bn
Value placed on scheme liabilities	£35.3bn	£43.7bn	£50.1bn	£45.8bn
Deficit	£2.9bn	£9.8bn	£11.5bn	£7.9bn
Funding Ratio	**92%**	**77%**	**77%**	**83%**

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.

As can be seen from the table, there has been considerable movement in the funding ratio since the last valuation caused by economic uncertainties which have troubled many UK defined benefit pension schemes. There has been a high level of volatility in the scheme's funding ratio in the months since March 2013; as at the end of June the funding ratio had improved to 83% which reflected a funding deficit of £7.9 billion with considerable fluctuation in the intervening three month period. Such movements put an emphasis on the depth and financial standing of the support provided to USS by its sponsoring employers.

What is the trustee board's funding plan?

In March 2011 the trustee board implemented a deficit recovery plan over a period of ten years in consultation with employers and 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 0.51% 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 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 at each actuarial valuation. It continues to monitor the funding position very closely and make preparations for the next formal valuation in 2014.

USS has always taken a long-term view in its funding approach to the scheme, supported by the unique and enduring nature of many of the scheme's sponsoring employers. That said, these are undoubtedly challenging times, and the trustee board is working with the employers to review their ongoing flexibility to meet USS commitments in light of wider financial, economic and sectoral changes which might impact them. This review will inform the trustee board's discussions with employer representatives, UCU and other stakeholders, during which the long-term funding plan for the scheme will be updated and an appropriate response to the funding position as at March 2014 formulated.

Additional information

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) became 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 2012 to March 2013 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 nor 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** or contact USS's Liverpool office at USS Limited, 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.

Report and Accounts for year ended 31 March 2013
This shows the scheme's income and expenditure in 2012/13, and more details regarding the scheme and the trustee company.

Actuarial Valuation report 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

ACTUARIAL VALUATION AS AT 31 MARCH 2011
SCHEME FUNDING REPORT

UNIVERSITIES SUPERANNUATION SCHEME

APPENDIX E

Certificate of technical provisions

Name of the Scheme	Universities Superannuation Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 March 2011 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the statement of funding principles dated ~~15~~ June 2012.

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

MERCER

USS Ltd Accounts

Director's Report for the year ended 31 March 2013

The directors submit their report and the financial statements for the year ended 31 March 2013.

Principal activity

Universities Superannuation Scheme Limited (the company), which is limited by guarantee and does not have a share capital, was established to undertake and discharge the office of trustee of any superannuation scheme but in particular to act as the trustee of the Universities Superannuation Scheme (USS or the scheme).

USS Investment Management Limited is a subsidiary of the company. It was incorporated on 4 June 1997 and remained dormant until trading commenced on 1 October 2012. Its principal activity is to provide investment management services exclusively to Universities Superannuation Scheme Limited.

Business review

The board submits its business review on the progress of the group for the year ended 31 March 2013.

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

The operating costs for the year amounted to £72,682,000 (2012: £69,628,000), representing an overall increase of 4% compared to the prior year, this amount being recoverable from USS. Membership of USS has continued to grow steadily and during the past twelve months has increased from 287,954 to 303,060, an increase of 5%.

The year ended 31 March 2013 was an extremely busy year for the group. In addition to the day to day administration of the scheme and management of the investments, the group completed a series of initiatives, whilst proactively managing costs. A summary of operating costs and initiatives are detailed below.

Operating costs

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

	2013 £000	2012 £000	Variance £000	Variance %
Personnel costs	30,562	26,186	4,376	17
Premises costs	3,667	3,590	77	2
Investment costs	21,688	21,412	276	1
Other costs	16,765	18,440	(1,675)	(9)
	72,682	**69,628**	**3,054**	**4**

Increased operating costs are mainly due to a 13% growth in headcount as a result of key policy and external factors. The group continued to expand the skill set within the investment team and associated control functions within USS Investment Management Limited. In addition extra resource was required to manage the increased administration workload generated by the scheme's growing membership, investment diversity and corporate complexity in order to implement key projects. Relative performance of the internally managed fund continued to improve in 2013 triggering larger awards for USS Investment Management staff under the company's incentive plan. However, the 2008 Long-term Incentive Plan (LTIP) award, which is based on longer-term cumulative fund performance has lapsed and was not paid during the year. The likelihood of the payout from other LTIPs remains low based on fund performance to date.

The £4,376,000 increase in personnel costs has been offset to some degree by savings in other costs which are largely due to a £1,320,000 reduction in the Pension Protection Fund levy and a £415,000 receipt from HMRC relating to a repayment of VAT from 2004/2005.

USS Investment Management Limited (USSIM)

As part of a corporate re-structure, USSIM became authorised by the Financial Services Authority (now the Financial Conduct Authority) and commenced regulated activities with effect from 5 September 2012. The employees engaged in and in support of the investment management activities of Universities Superannuation Scheme Limited, together with the associated assets and liabilities of this function, were transferred to the legal entity USSIM on 1 October 2012 when trading commenced.

Pension legislation

Work has been ongoing on a number of strategic issues for the scheme including auto-enrolment, the HMRC's information requirements for annual allowance and covenant assessment. As a result system configurations were required to cater for the changes particularly auto enrolment that went live 1 March 2013 and tax information bulk processing.

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.

Directors

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

Sir M B Harris (Chairman)

Prof R J Bull (Deputy Chairman)

Prof Dame G M Breakwell

Mr M G Butcher

Dr K J Carter (appointed 1 September 2012)

Mr J W Devlin

Prof D S Eastwood

Mr D Guppy (retired 31 August 2012)

Ms V A Holmes

Mr H R Jacobs (retired 30 September 2012)

Mr D C McDonnell

Mr M R Poisson (appointed 1 November 2012)

Dr A M Roger (appointed 1 September 2012)

Mr J W D Trythall

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 disabled persons, as defined by the Disability Discrimination Act 1995, 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 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 in excess of £2,000.

Statement of directors' responsibilities

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

Company law requires the directors to prepare 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 law).

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 profit or loss of 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 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 group and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Provision of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as they are each aware, there is no relevant audit information of which the company's and group's auditors are unaware; and
- that each director has taken all the steps that they ought to have taken as a director in order to be aware of any information needed by the company's and group's auditors in connection with preparing its report and to establish that the company's and group's auditors are aware of that information.

Auditor

Grant Thornton UK LLP were appointed as Auditor of the company and group on 27 September 2012.

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 accounts with the registrar, whichever is earlier.

This report was approved by the board on 26 September 2013 and signed on its behalf.

By order of the board

I M Sherlock
Company Secretary

26 September 2013

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

We have audited the financial statements of Universities Superannuation Scheme Limited for the year ended 31 March 2013 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 Directors' Responsibilities Statement set out on page 80, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2013 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 matters prescribed by the Companies Act 2006

In our opinion the information given in 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 — 26 September 2013

Consolidated profit and loss account for the year ended 31 March 2013

	Note	2013 £000	2012 £000
Turnover	1	72,682	69,628
Administrative expenses		(72,682)	(69,628)
Profit or loss on ordinary activities before and after taxation		-	-

There were no recognised gains and losses for 2013 or 2012 other than those included in the profit and loss account.

All amounts relate to continuing operations.

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

Consolidated statement of operating costs for the year ended 31 March 2013

	Note	2013 £000	2012 £000
Personnel costs			
Employees' emoluments	2	28,685	24,442
Directors' emoluments and expenses	3	565	615
Recruitment, training and welfare		1,312	1,129
		30,562	**26,186**
Premises costs			
Rents, rates, service charges and utilities		2,961	2,916
Depreciation and maintenance		706	674
		3,667	**3,590**
Investment costs			
Securities research costs		8,993	9,841
Securities management		5,475	5,174
Property management		3,130	2,778
Custodial services		1,792	1,279
Legal costs – property management		1,260	899
– other		671	1,031
Property valuation		190	202
Investment performance measurement		177	208
		21,688	**21,412**
Other costs			
Computer and information services costs	4	6,299	6,257
Pension protection fund levy	5	3,484	4,804
Professional fees	6	4,199	4,259
Travel and car costs		1,289	1,278
Office equipment		504	524
Institution liaison and member communication		330	459
Telephones and postage		359	292
Printing and stationery		248	222
Insurances		149	146
Auditors' remuneration	7	133	75
FCA fees		92	90
Loss/(profit) on disposal of fixed assets		11	(30)
Sundry (income)/expenditure		(332)	64
		16,765	**18,440**
Total operating costs		**72,682**	**69,628**

Balance sheets as at 31 March 2013

Company registration number: 0116 7127

	Note	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Assets					
Fixed assets					
Tangible fixed assets	8	2,439	3,264	1,873	3,264
Investment in subsidiary undertakings	9	-	-	921	-
		2,439	**3,264**	**2,794**	**3,264**
Current assets					
Debtors	10	8,043	13,003	6,298	13,003
Cash at bank and in hand		5,191	7	6	7
		13,234	**13,010**	**6,304**	**13,010**
Total assets		**15,673**	**16,274**	**9,098**	**16,274**
Liabilities					
Creditors – amounts due within one year	11	13,945	15,125	9,098	15,125
Creditors – amounts due after more than one year	12	1,728	1,149	-	1,149
Total liabilities		**15,673**	**16,274**	**9,098**	**16,274**

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

The financial statements on pages 82 to 97 were approved by the board of directors on 26 September 2013 and were signed on its behalf by:

Sir Martin Harris
Chairman

Professor John Bull
Deputy Chairman

Consolidated cash flow statement for the year ended 31 March 2013

	Note	2013 £000	2012 £000
Operating activities			
Cash received from USS		77,975	67,892
Operating costs paid	13	(72,181)	(67,246)
Net cash inflow from operating activities		**5,794**	**646**
Capital expenditure			
Purchase of tangible fixed assets		(662)	(695)
Sale of tangible fixed assets		52	50
		(610)	**(645)**
Increase in cash	**13**	**5,184**	**1**

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

Notes to the accounts for the year ended 31 March 2013

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 Limited drawn up to 31 March 2013. 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 Limited, 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 (2012: £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 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 economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Alterations to rented premises	20
Computer equipment	33⅓
Computer software	33⅓
Office equipment	15
Motor cars	25

Operating leases

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

Pensions

The group participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The 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.

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 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

	2013	**2012**
The average weekly number of persons employed by the group during the year (excluding directors) was	322	284

	£000	**£000**
Staff costs for the above persons were:		
Wages and salaries	22,714	19,384
Pension costs	3,286	2,812
Social security costs	2,178	1,910
Restructuring costs	507	336
	28,685	**24,442**

3. Directors' emoluments and expenses

	2013 £000	2012 £000
Fees	474	491
Employer's costs - national insurance contributions	55	55
- VAT	-	3
Expenses	36	66
	565	**615**

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 2013 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 accounts were as follows:

	2013 £000	2012 £000
Sir M B Harris (Chairman)	69	67
Prof R J Bull (Deputy Chairman)	57	57
Ms V A Holmes	75	75
Mr D C McDonnell	41	34
Mr M G Butcher	38	33
Mr J W D Trythall	29	29
Mr J W Devlin	29	29
Prof Dame G M Breakwell	29	29
Dr K J Carter	26	-
Mr H R Jacobs	25	67
Prof D S Eastwood	23	22
Dr A M Roger	13	-
Mr D Guppy	12	29
Mr M R Poisson	8	-
Mr S J Egan	-	20
	474	**491**

The directors' fees and expenses include £nil paid to third parties in respect of their services (2012: £21,000).

4. Computer and information services costs

	2013 £000	2012 £000
Investment information services	3,592	3,422
Computer running costs	1,468	1,472
Software depreciation	388	543
Investment accounting services	566	504
Hardware depreciation	252	255
Computer bureau fees	33	61
	6,299	**6,257**

5. Pension protection fund

	2013 £000	2012 £000
Scheme-based and risk based levies	2,892	4,101
Administration levy	273	357
General levy	247	277
Fund levy	72	69
	3,484	**4,804**

6. Professional fees

	2013 £000	2012 £000
Actuarial	1,062	1,277
Consultancy	1,041	1,365
Legal	1,053	856
Financial Management Plan	471	-
Committee members (other than directors)	254	243
Public relations	119	129
Member matters	59	62
Scheme changes	51	217
Other	89	110
	4,199	**4,259**

7. Auditors' remuneration

	2013 £000	2012 £000
Grant Thornton - USS	98	-
Grant Thornton - USS Investment Management Limited	25	-
Grant Thornton - Universities Superannuation Scheme Limited	10	-
KPMG - USS	-	70
KPMG - Universities Superannuation Scheme Limited	-	5
	133	**75**

The company appointed Grant Thornton UK LLP as auditors on 27 September 2012 for the year ended 31 March 2013.

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

	2013 £000	2012 £000
Other services relating to taxation	-	54
Services relating to information technology	-	60
All other services	-	6
	-	**120**

No non-audit services were paid to Grant Thornton LLP during the year.

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 2012	4,626	1,730	5,097	2,708	364	14,525
Additions	14	164	375	85	24	662
Disposals	-	(1)	(45)	-	(61)	(107)
At 31 March 2013	**4,640**	**1,893**	**5,427**	**2,793**	**327**	**15,080**
Accumulated depreciation						
At 1 April 2012	3,211	1,391	4,553	1,981	125	11,261
Charge for year	504	252	388	185	95	1,424
Disposals	-	-	(10)	-	(34)	(44)
At 31 March 2013	**3,715**	**1,643**	**4,931**	**2,166**	**186**	**12,641**
Net book Value						
At 31 March 2013	**925**	**250**	**496**	**627**	**141**	**2,439**
Net book Value						
At 31 March 2012	**1,415**	**339**	**544**	**727**	**239**	**3,264**

Company

	Alterations to rented premises £000	Computer equipment £000	Computer software £000	Office equipment £000	Motor vehicles £000	Total £000
Cost						
At 1 April 2012	4,626	1,730	5,097	2,708	364	14,525
Additions	14	164	375	81	24	658
Transfers	-	-	-	(1,481)	-	(1,481)
Disposals	-	(1)	(45)	-	(61)	(107)
At 31 March 2013	**4,640**	**1,893**	**5,427**	**1,308**	**327**	**13,595**
Accumulated depreciation						
At 1 April 2012	3,211	1,391	4,553	1,981	125	11,261
Charge for year	504	252	388	103	95	1,342
Transfers	-	-	-	(837)	-	(837)
Disposals	-	-	(10)	-	(34)	(44)
At 31 March 2013	**3,715**	**1,643**	**4,931**	**1,247**	**186**	**11,722**
Net book Value						
At 31 March 2013	**925**	**250**	**496**	**61**	**141**	**1,873**
Net book Value						
At 31 March 2012	**1,415**	**339**	**544**	**727**	**239**	**3,264**

9. Investment in subsidiary undertakings

	Company	
	2013 £000	2012 £000
At 1 April	-	-
Investment in USS Investment Management Limited	921	-
At 31 March	**921**	**-**

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

10. Debtors

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Amounts due from related party	5,277	10,570	5,277	10,570
Prepayments	2,582	2,368	967	2,368
Other debtors	184	65	54	65
	8,043	**13,003**	**6,298**	**13,003**

11. Creditors - amounts falling due within one year

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Amounts due to group undertakings	-	-	3,245	-
Accrued expenditure	6,501	7,229	3,087	7,229
Other creditors	3,686	4,679	2,577	4,679
Taxation and social security	3,758	3,217	189	3,217
	13,945	**15,125**	**9,098**	**15,125**

12. Creditors - amounts falling due after more than one year

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

13. Notes to the cash flow statement

13a. Reconciliation of net cash flow from operating activities

	2013 £000	2012 £000
Operating costs – recoverable from USS	72,682	69,628
Decrease/(increase) in creditors	601	(1,552)
(Loss)/profit on sale of tangible fixed assets	(11)	30
Depreciation	(1,424)	(1,565)
Increase in debtors (excluding USS)	333	705
Operating costs paid	**72,181**	**67,246**

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 FRS1 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.

13b. Reconciliation of net cash flow to movement in net funds

	2013 £000	2012 £000
Increase in cash in the period	5,184	1
Change in net funds	**5,184**	**1**
Net funds at 1 April	7	6
Net funds at 31 March	**5,191**	**7**

13c. Analysis of changes in net funds

	At 1 April 2012 £000	Cash flows £000	Other changes £000	At 31 March 2013 £000
Cash at bank and in hand	7	5,184	-	5,191
	7	**5,184**	**-**	**5,191**

14. Operating lease commitments

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

	Land and buildings		Other	
	2013 £000	2012 £000	2013 £000	2012 £000
Less than one year	-	-	4	4
Between two and five years	-	-	46	36
Over five years	1,499	1,499	-	-

15. Contingent liability

The group has in place a series of long-term incentive plans (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 date, which have not previously lapsed, is £8,512,500 at 31 March 2013 (2012: £6,240,000). These amounts exclude national insurance contributions, which would be a further cost.

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.

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 the likelihood of payments being made is low and hence no provision has been made in the accounts.

The company had no contingent liabilities at 31 March 2013.

16. Capital commitments

The group and company had no capital commitments at 31 March 2013 or 31 March 2012.

17. Pension costs

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

The appointment of directors to the board of the trustee is determined by the 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 2013 are also included in this note.

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

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter.

Standard mortality tables were used as follows:

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

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism. To allow for further improvements in mortality rates the CMI 2009 projections with a 1.25% pa long-term rate were also adopted. The assumed life expectations on retirement at age 65 are:

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

At the valuation date, the value of the assets of the scheme was £32.4 billion and the value of the scheme's technical provisions was £35.3 billion indicating a shortfall of £2.9 billion. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the scheme was 93% funded; on a buy-out basis (ie assuming the scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

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

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of the 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 the future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

As at the valuation date the scheme was still a fully Final Salary (FS) 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 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 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%.

The actuary has estimated that the funding level as at 31 March 2013 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are sighted as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2013 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.2% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2013 was 68%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 55%.

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	Impact on shortfall
Investment return	Decrease by 0.25%	Increase by £1.6 billion
The gap between RPI and CPI	Decrease by 0.25%	Increase by £1 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Members live longer than assumed	1 year longer	Increase by £0.8 billion
Equity markets in isolation	Fall by 25%	Increase by £4.6 billion

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

The trustees believe that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set by the trustee are designed to give the fund a significant exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that, putting the issue of the USS fund's size and scale to one side for a moment, it might be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the sponsoring employers would be willing and able to make, it is necessary and appropriate for the trustee to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and importantly considers the ability of the sponsoring employers to support the scheme if the investment strategy does not deliver the expected returns.

The positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities, and the scheme actuary has confirmed that this is likely to remain the position for the next ten years or more. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and most critically the ability of the employers to provide additional support to the scheme should additional contributions be required, enables it to take a longer-term view of its investments. Some short-term volatility in returns can be tolerated and need not feed through immediately to the contribution rate. However, the trustee is mindful of the difficult economic climate which exists for defined benefit pension schemes currently, and the need to be clear about the responses that are available should the deficits persist and a revised recovery plan becomes necessary following the next actuarial valuation of the scheme as at March 2014. The trustee is making preparations ahead of the next valuation to compile a formal financial management plan, which will bring together – in an integrated form – the various funding strands of covenant strength, investment strategy and funding assumptions, in line with guidance from the Pensions Regulator.

At 31 March 2013, USS had over 148,000 active members and the group had 283 active members participating in the scheme.

The total pension cost for the group was £3,286,000 (2012: £2,812,000). The contribution rate payable by the group was 16% of pensionable salaries.

18. Related party transactions

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

The group provides administration and investment management services to USS charging £21,500,000 (2012: £21,500,000) and £51,200,000 (2012: £48,100,000) respectively, with a balance due from USS of £5,277,000 as at 31 March 2013 (2012: £10,570,000)

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 accounts are prepared.

Committee Reports

Audit Committee

Purpose

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

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

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

Membership

The committee's members are appointed by the board and comprise at least three board directors and at least one committee member with recent and relevant financial experience. Membership at 31 March 2013 is detailed below:

- Mr Michael Butcher (chairman)
- Professor John Bull
- Mr Joseph Devlin
- Mr David McDonnell
- Mr Gordon Coull (independent committee member appointed 1 April 2012)

The biographical details for director members can be found on page 8 and 9. In addition, the independent member of the committee Mr Coull provides the committee with recent and relevant financial experience having recently retired as a partner with EY.

Committee performance

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

No. of meetings*	5
Attendance	96%
No. of items received and considered	91

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

Key activities in 2012/13

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

- reviewed the accounts of both the trustee company and the scheme prior to approval by the board;
- reviewed the external auditor's strategy for the audit of the accounts of the trustee company and the scheme;
- reviewed the performance, independence and objectivity of the external auditor, including a review of non-audit fees;
- recommended the appointment of a new external auditor to the board and oversaw the appointment and transition process;
- reviewed the internal audit function's terms of reference, its work programme and quarterly reports on its work during the year;
- reviewed the effectiveness of the trustee company's internal and financial controls and its approach to identifying and dealing with risks to its business; and
- oversaw the development of a policy and procedure for establishing and managing Special Purpose Vehicles.

Finance and Policy Committee

Purpose

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

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

Membership

The committee's members are appointed by the board and comprise both board members and executives. Membership at 31 March 2013 is detailed below:

- Professor John Bull (chairman)
- Mr Joseph Devlin
- Professor David Eastwood
- Mrs Virginia Holmes
- Mr Rene Poisson
- Mr Bill Trythall
- Chief executive
- Chief financial officer
- Head of Policy

Mr Howard Jacobs (Independent director) retired on 30 September 2012. We thank Mr Jacobs for his valuable contribution as a committee member.

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

Committee performance

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

No. of meetings	4
Attendance	92%
No. of items received and considered	99

Key activities in 2012/13

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

- Operational performance against the objectives of the 2012/13 strategic and business plan;
- Financial performance against budgets and forecasts for 2012/13;
- Strategic and business plans for 2013/14;
- Issues of scheme policy and administration including scheme mergers, exclusivity, employer debt and employer covenant;
- Review of the scheme actuary;
- Arrangements for health and safety, business continuity and company insurances;
- Communication and services provided to member institutions and individual members;
- Benchmarking of pensions administration functions; and
- Non-investment risk management.

Investment Committee

Purpose

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

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

Membership

The committee's members are appointed by the board and comprise both board members and special members. An investment specialist also attends the meetings. Membership at 31 March 2013 is detailed below:

- Virginia Holmes (chairman)
- Professor John Bull
- Sir Martin Harris
- Dr Kevin Carter
- Professor Dame Glynis Breakwell
- Mr David McDonnell
- Mr R Gillson
- Mr Graham Allen (special member)
- Mrs Angela Docherty (special member)

Committee performance

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

No. of meetings	5
Attendance	91%
No. of items received and considered	155

Key activities in 2012/13

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) evolution
- Asset liability modelling and risk management
- Tactical asset allocation (TAA) mandate and approved investment instruments
- Active management risk budget and target returns
- Statement of Investment Principles and key investment-related policies
- Investment Management Agreement with USS Investment Management Ltd

Nominations and Governance Committee

Purpose

The committee was established by the trustee board to consider and make recommendations on the recruitment, induction and training of board and committee members to ensure that there is the appropriate balance of skills, experience and knowledge to effectively discharge board and committee responsibilities. During the year the committee's remit has been extended to include governance matters and its terms of reference revised to include new responsibilities in this area.

Membership

The committee's members are appointed by the board and membership at 31 March 2013 comprised five members;

- Professor John Bull (chairman)
- Sir Martin Harris
- Professor David Eastwood
- Ms Angela Roger (membership commenced 1 September 2012); and
- Mr Tom Merchant

Mr David Guppy retired in August 2012. We thank Mr Guppy for his valuable contribution as a committee member.

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

Committee performance

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

No. of meetings	4
Attendance	100%
No. of items received and considered	39

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

Key activities in 2012/13

The committee has considered and made recommendations where appropriate 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;
- Training and development for directors; and
- Regulatory and statutory issues relating to governance.

Remuneration Committee

Purpose

The committee was established by the trustee board to consider and make recommendations on the policy and practice for the recruitment, motivation and retention of trustee company staff with the exception of the Group CEO and chief investment officer, whose salaries are determined at board level and the chief investment officer whose remuneration package is agreed by the chairman of the committee in conjunction with the chairman of the investment management subsidiary (USSIM) Ltd.

Membership

The committee's members are appointed by and from the board and membership at 31 March 2013 comprised four members;

- Mr David McDonnell (chairman)
- Professor Dame Glynis Breakwell
- Mr Joseph Devlin
- Mr Michael Butcher

Mr Howard Jacobs retired on 30 September 2012 and was succeeded as chairman by Mr David McDonnell. We are grateful to Mr Jacobs for his significant contribution to the committee's deliberations.

Committee performance

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

No. of meetings	3
Attendance	100%
No. of items received and considered	13

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

Key activities in 2012/13

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

- Total compensation and benefits for employees;
- Bonus scheme and long-term incentive plans for investment staff; and
- Key performance indicators relating to human resources.

Rules Committee

Purpose

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

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

Membership

The committee's members are appointed by the board and membership at 31 March 2013 comprised three members:

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

Committee performance

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

No. of meetings	6
Attendance	100%
No. of items received and considered	37

Key activities in 2012/13

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

- changes to the scheme rules in the area of automatic enrolment, which included a number of administrative and policy changes and culminated in rule amendments being made in the ninth amending deed.
- the implementation of (i) an extension to the transitional protection for members made redundant by one further year to 30 September 2014 and (ii) a modification to the amount of money purchase additional voluntary contributions a member may pay.
- the development of rule amendments to implement flexible retirement for multiple appointment members.

Advisory Committee

Purpose

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.

Membership

The committee's members comprise representatives of University and College Union (UCU) and Universities of the United Kingdom (UUK).

Membership at 31 March 2013 is detailed below:

- Mr Joe Gluza – UCU nominee and committee chairman
- Ms Pauline Collins– UCU nominee
- Mr Jimmy Donaghey – UCU nominee
- Mr Cliff Vidgeon – UUK nominee
- Mr Denis Linfoot – UUK nominee
- Dr Tony Bruce – UUK nominee
- Dr Angela Roger * – UCU appointed director
- Professor Dame Glynis Breakwell* – UUK appointed director

*USS Ltd directors appointed to participate solely in consideration of Internal Dispute Resolution Cases

Mr C Vidgeon fulfilled the role of chairman until January 2013 at which time Mr J Gluza assumed the role of chairman.

Mr D Guppy (UCU) USS Ltd director for Internal Dispute Resolution cases retired in August 2012. We thank Mr Guppy for his valuable contribution as a committee member.

Committee performance

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

No. of meetings	4
Attendance	81%
No. of items received and considered	67

Key activities in 2012/13

- The majority of questions raised on the application or interpretation of the rules of USS were dealt with by senior officers. There were forty-three cases which required detailed consideration by the advisory committee during the year.
- Thirty 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.
- Thirteen cases were considered at stage two of the internal dispute resolution procedure. As an example of the range of cases considered: four cases related to the time limits which apply when a member wishes to make a transfer on 'Club' terms, one case related to the recent change to USS pension increases which now rise in line with the Consumer Prices Index as opposed to the Retail Prices Index and two cases related to the fact that the date on which an additional voluntary contributions contract ceases is not automatically the date on which a member may retire.
- In all thirteen cases, the officers' decisions at stage 1 of the internal disputes resolution procedure were upheld. However in one case, which related to the issuing of an incorrect retirement quotation, the committee recommended the reimbursements of financial advice costs incurred by the member as a gesture of goodwill.
- In addition to making adjudications on these individual cases the committee reviewed a number of other areas of the scheme including: consideration of the nature of the full commutation cases received and an ongoing review of the work the trustee company has undertaken, and is scheduled to undertake, in the areas of data quality, communications and information technology.

Joint Negotiating Committee

Purpose

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

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

Membership

The JNC is a body comprising five representatives of Universities UK (UUK) and five representatives of the University and College Union (UCU), together with an independent committee member who acts as chairman. Membership at 31 March 2013 was:

- Sir Andrew Cubie – Independent committee member and chairman
- Dr Tony Bruce – UUK nominee
- Mr Phil Harding – UUK nominee
- Mr Denis Linfoot – UUK nominee
- Mr Will Spinks – UUK nominee
- Mr Cliff Vidgeon – UUK nominee
- Ms Angela Lamb – UCU nominee
- Mr Alan Carr – UCU nominee
- Ms Geraldine Egan – UCU nominee
- Professor Malcolm Povey – UCU nominee
- Mr Roger Brooks – UCU nominee

Committee performance

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

No. of meetings	5
Attendance	100%
No. of items received and considered	39

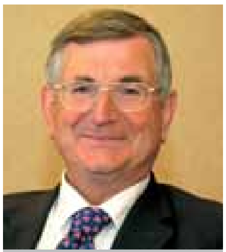
Key activities in 2012/13

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

- The committee considered the matter of extending the transitional protection for members who were made redundant by one further year to 30 September 2014. The rule amendments required to implement the change were decided upon at the July meeting of the committee and were executed in the eighth deed of amendment on 1 August 2012.
- The committee considered issues relating to the new pensions obligations for employers, which require certain workers to be auto-enrolled into a qualifying pension scheme. USS will meet the required scheme standard in order for employers to satisfy their duty to auto-enrol certain workers or where appropriate permit such workers to join a scheme on request, however there were a number of policy issues to consider in relation to those employees who were not able to become members of USS or where the rules of the scheme could prove to be a barrier to automatic enrolment. The amendments required to implement the necessary changes into the scheme rules formed the ninth deed of amendment which was executed on 1 August 2012.
- The sub-group of the JNC established to develop a flexible retirement proposal for multiple appointment members, agreed a key features document which specified the method of implementing flexible retirement for this group. The rule amendments required to implement the proposal were considered by the committee early in 2013 and should be agreed and executed later in the year.

- The trustee company undertook a review of the USS 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 whether they should be eligible for the final salary or career revalued benefits section of the scheme, or perhaps be able to remain in the support staff scheme; the committee will consider the matter further during the coming year.
- The committee considered and agreed a recommendation from the board in relation to the implementation of a revised fee structure for board directors and the fee level payable for a new independent director.
- Finally, the committee agreed rule amendments which removed the references in the scheme rules to the funding councils and simplified the administration of the USS money purchase facilities. The rule changes were contained within the seventh and tenth deeds of amendment executed on 30 May 2012 and 1 August 2012 respectively.

Chairman



Sir Martin Harris
Chairman

Chairmen of principal sub-committees

Dr Kevin Carter
Investment Committee

Professor John Bull
Finance & Policy Committee

Nominations and Governance Committee

Michael Butcher
Audit Committee

Howard Jacobs
Rules Committee

David McDonnell
Remuneration Committee

Sir Andrew Cubie
Joint Negotiating Committee

Joe Gluza
Advisory Committee

Principal Officers

Back: David Webster, Chief Financial Officer, Howard Brindle, Chief Operating Officer, Roger Gray, Chief Investment Officer, Ian Sherlock Company Secretary, Bill Galvin, Group Chief Executive Officer

Front: Bernie Steventon, Head of Pensions Operations and Brendan Mulkern, Head of Policy

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