Members' Annual Report 2016

WELCOME

Professor
Sir David Eastwood
Chair

Welcome to the Members' Annual Report.

2016 was a remarkable year. We implemented the most substantial changes in the scheme's 40 year history, and in doing so, we have been supported by extraordinary levels of engagement and commitment from you, our members. We have received many thousands of responses from members who have contributed to surveys and focus groups, and provided feedback to help inform the development of the new sections of the scheme. I must firstly express, on behalf of my fellow directors on the trustee board, our gratitude for all the support and input we have received.

The changes implemented last year included the introduction of two new sections of the scheme; the USS Retirement Income Builder and the USS Investment Builder. These provide a secure retirement income and flexible investments designed in consultation with you and your representatives. Any benefits you already have, either in the old final salary section, or the old CRB section, are secure. These benefits will appear on your annual pension statement and will continue to increase in line with normal pension increases, about which you can read more on page 14.

We have also made some changes to the way we support you – through our administration systems – including a new website and new online service for members, My USS. You can read more about the benefits of registering for My USS, which includes information on additional member and employer contributions via the match, on page 18.

Our work is not done. There are many updates we wish to make in order to deliver a service to our members which is simple to understand and easy to use. This includes making greater use of technology to provide you with readily available information when you need it.

We'd like to hear your views on this document and its usefulness in keeping you updated.

TELL US WHAT YOU THINK +

2017 will be another busy year for USS

One area of focus is how we can make the scheme more flexible to respond to the changing needs of our members and employers, including an increased desire for more flexible working patterns, and changing retirement spending needs. We shall also be making improvements to our service to both employers and members, focusing particularly on the support we provide to help members make good decisions about their USS benefit choices.

In addition to this work, we shall also be conducting a valuation of the assets and liabilities associated with the USS Retirement Income Builder and those built up in the scheme before 1 April 2016. Every three years we review all of the factors affecting the funding of the defined benefits within the scheme, and come to a view of the funding position. Of course, we monitor these factors in between valuations and in recent times the consensus view on economic prospects has not been trending in our favour. We expect to report again that the existing benefits will cost more to provide in the future than assumed at the previous valuation. This could lead to a discussion between the employer and member representatives about the balance between the benefits provided and the contribution rates payable for them. We are working closely with member and employer representatives on these matters (with the Joint Negotiating Committee).

This year's report also contains information about our investment approach. The investment team achieved impressive performance in the five years to 31 March 2016, contributing an additional 1.1%, or £2.2 billion, to the scheme above what would have been generated by passively replicating the benchmark. The team has also secured some great investments, including purchasing a crematoria operator and, more recently, investing in a joint venture to deliver supported housing for disabled people. First and foremost, these are good investment decisions that will benefit our members, but also help provide vital public services. We have also included some further information about our approach to responsible investment, focusing on areas we know are of interest to some members.

Finally, you will also find the regular updates on pension increases, membership numbers and scheme news. Our focus on communicating information about the scheme changes last autumn is the reason for the later than usual publication date for this Report. Nonetheless, I hope you find this edition of the Members Annual Report useful. For more information please visit our website.

Professor Sir David Eastwood, Chair

SUMMARY OF THE SCHEME ACCOUNTS 2015/16

The scheme's income is derived from member and employer contributions, along with returns from the scheme's investments and incoming transfer payments.

Throughout the year the scheme makes payments to scheme pensioners and their beneficiaries, as well as contribution refunds to members who leave the scheme along with outgoing transfer payments. A summary of the scheme's income and expenditure is shown below.

Income for the year	£m
Contributions from members and employers	1,857
Premature retirement receipts	6
Transfers-in from other schemes	63
Total income	**1,926**

Expenditure for the year	£m
Benefits paid	1,780
Payments to leavers	75
Administration costs	43
Total expenditure	**1,898**

Returns on investments	£m
Investment income	1,156
Change in market value of investments	(379)
Investment management expenses	(75)
Total returns on investment	**702**

Fund at 31 March 2015 **£49,547m** + **Net increase in the fund during the year** **£730m** = **Fund at 31 March 2016** **£50,277m**

MEMBERSHIP AS AT 31 MARCH 2016

USS provides benefits to the many thousands of pensioners of the scheme as well as beneficiaries.

Membership of the scheme is always changing as new employees join and become contributing (active) members and members leave the scheme and retire (pensioners), or retain their benefits in the scheme before retirement (deferred members). This section shows a summary of the scheme's membership and how the level has changed over the course of the previous year.

ACTIVE MEMBERS +

PENSIONER MEMBERS +

DEFERRED MEMBERS +

BENEFICIARY MEMBERS +

INVESTMENT SUMMARY

Roger Gray
Chief Investment Officer

In this section, Roger Gray, Chief Investment Officer, provides an update on the strong investment performance his team has achieved and shares his insights into how political and economic changes have affected the investment outlook for USS.

Working for you

USS has a successful in-house investment team. These are dedicated and expert investment professionals whose job it is to seek out the right mix of investments to deliver the returns to pay pensions to over 370,000 active, pensioner and deferred members. It does this at a much lower cost than if the assets were run externally by third party asset managers and also lower than our peer funds. Independent assessments have consistently demonstrated that our investment management costs are highly competitive for the mix of investments we make.

The trustee board sets the parameters within which the investment team operates. For benefits earned prior to 1 April 2016, and those earned since that date in the USS Retirement Income Builder, those parameters are largely dictated by the amount of financial support available to the scheme from employers. This estimate, often referred to as covenant strength, establishes how much investment risk we can take. Combined with our best estimate of the prospective returns from different types of investment, the trustee then defines the reference portfolio, whose subsequent returns sets the benchmark for USS Investment Management.

Investment performance

The investment team has materially exceeded the benchmark set for them. Consistent with a longer-term investment approach, performance is assessed primarily over rolling five year periods.

INVESTMENT PERFORMANCE +

Unfortunately, the present value of our liabilities – that is the value of expected pension payments now and in the future - has also risen, and has risen quicker than the value of our assets over the past five and 10 years. The chart below shows the performance of the assets supporting the benefits built up before 1 April 2016 and the USS Retirement Income Builder, the performance benchmark and a comparison with a proxy for our liabilities over one, three, five and 10 years.

ANNUALISED RETURNS TO MARCH 2016 +

You can read more about the funding position in the Summary Funding Update on pages 10 to 13.

Investment activity

Our investment approach provides flexibility and ensures we are able to invest in a diverse range of assets which spreads risk and provides greater resilience. During the year we have made some exciting and varied investments, including purchasing a crematoria operator, and more recently a joint venture to deliver supported housing for disabled people. These investments share an important feature: both are expected to deliver consistent returns to help us to pay your pension. You can read more about these investments, and others, on our **website**.

Investing responsibly is an important part of what we do in fulfilling our primary duty to achieve the best risk-adjusted returns from our investments. This means we must consider any factor which might have a material financial impact, including environmental, ethical, social and governance issues. Our in-house team works alongside the investment managers to consider these matters and advise on new investments. We also engage with the companies in which we are invested on an ongoing basis to encourage best practice on a range of issues. At a broader level, the role of government and regulators can be crucial in this space and we also regularly work with other schemes to lobby for change and raise market standards. You can read more about our approach to responsible investment on pages 15 to 17.

Market outlook

The current financial year has been extraordinary. In the markets, government bond yields set new historic lows in the summer, equities (publicly traded stocks and shares) have strengthened and sterling has weakened sharply following the Brexit referendum. At a political level, we shall be navigating the uncertainty created by the Brexit vote and the outcome of the US election for some time. Additionally, governments around the world have continued the massive experiment with unconventional monetary policy in an effort to deal with the persistent low growth and inflation environment, though both growth and inflation are now recovering from 2016 lows.

The outlook for 2017 is therefore somewhat mixed. There are some gloomy predictions linked to the disappointing trend in productivity over recent years and to prospective demographic ageing. However, we remain moderately optimistic that future long-term returns on equities and other return seeking assets will exceed returns on low-yielding gilts. We shall, of course, continue to act with your best financial interests in mind as we navigate the future investment landscape.

Roger Gray, Chief Investment Officer

SCHEME ASSETS

The trustee sets an investment strategy which is appropriate for the level of risk the employers are able to support. Below you can find information about the scheme's assets and where they are invested.

Distribution of assets

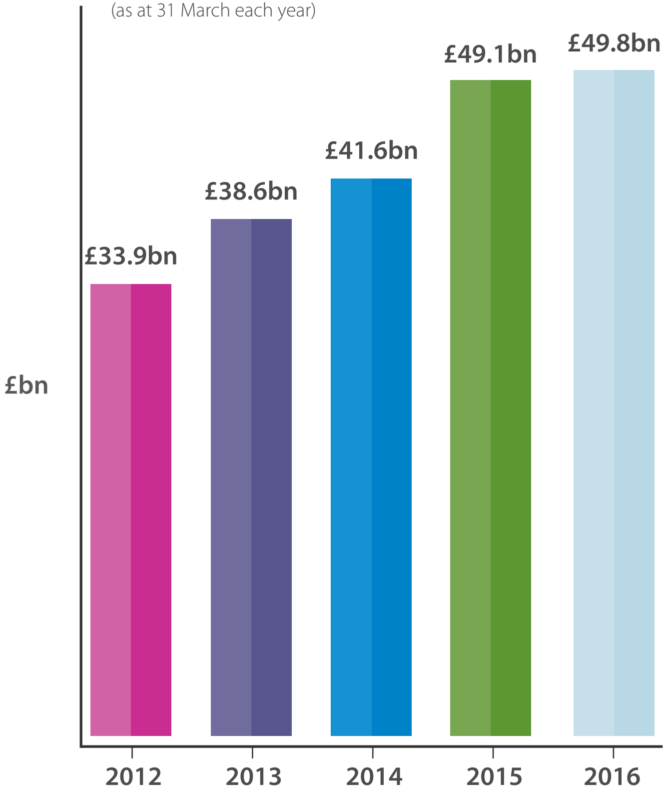
The trustee has delegated implementation of its investment strategy to USS Investment Management Ltd, which has discretion to invest in a range of assets, provided it remains within acceptable levels of risk and delivers the required returns.

This delegated authority is described as a reference portfolio approach and gives considerable flexibility to the in-house investment team to manage the fund's investments within an appropriate governance framework.

DISTRIBUTION OF ASSETS KEY +

Total scheme assets*

(as at 31 March each year)



*Excluding Money Purchase AVCs.

As at 31 March 2016:

LARGEST LISTED EQUITIES +

LARGEST FIXED-INTEREST HOLDINGS +

Funding defined benefits within the scheme

Some fundamentals regarding the USS benefit structure

During the year a number of changes were made to USS's benefit structure. This included the introduction of two new sections of the scheme; the USS Retirement Income Builder and the USS Investment Builder. These changes were decided upon by the employer and member representatives through the Joint Negotiating Committee (JNC), which is a formal decision-making body made up of an equal number of appointees from Universities UK (UUK) and the University and College Union (UCU) and an independent chair. For more information about changes to the benefits provided please refer to the USS **website**.

FINANCIAL SCHEME BENEFITS +

How is the financial position of the scheme's defined benefits measured?

The financial position of the scheme's defined benefits is measured by comparing the current value of its assets with the trustee's estimate of the current value of the liabilities. The current value of the assets held is relatively easy to determine at a particular point in time, using their market value at that date.

There are uncertainties inherent in estimating the current value of the liabilities, for example, the length of time for which a future pension might be paid, the possibility that a survivor's benefit might be paid, and the future rate of return on investment. Estimates of all these factors are used to determine the amount of assets that would be required today in order to meet, in full, the benefits members have already earned up to the date of the valuation.

The most recent full review of the funding position was last undertaken as at 31 March 2014. In any actuarial valuation, the trustee places a value on the liabilities which assumes that the defined benefit section of the scheme is ongoing, known formally as the 'technical provisions'. It is this technical provisions basis that is typically used when referring to the value of the liabilities. However, in addition to this the trustee is also required by law to value the liabilities assuming those liabilities had to be bought out by an insurance company. This latter measure is known as the 'buy-out' basis and provides a further reference point by which the health of the defined benefits within the scheme can be assessed, but members should note that neither the trustee board, nor the scheme's stakeholders, have any plans to buy-out the scheme's defined benefits with an insurance company.

The actuarial valuation is the time when the trustee reviews all of the underlying assumptions relating to the defined benefits within the scheme. The assumptions agreed and used for the 2014 actuarial valuation are available on our **website**. These assumptions will next be reviewed as part of the 2017 actuarial valuation. The actuarial reports for 2015 and 2016 can also be found online.

What was the position at the last actuarial valuation?

The latest actuarial valuation calculated that, as at 31 March 2014, the assets as a percentage of liabilities (described as the funding ratio) stood at 89% on a technical provisions basis and 54% on a buy-out basis. These funding ratios reflect the changes to future benefits as decided by the scheme's stakeholders. The technical provisions basis reflects the assumptions, described above, whereas the buy-out basis uses assumptions intended to approximate those that an insurer would use.

How has the funding position changed since then?

During the period since 31 March 2014 there has been a great deal of volatility in financial markets, which has been reflected in the volatility of the reported deficit and funding ratio. The real yield on government bonds has continued to decline, and the continuation of this more pessimistic outlook for investors has resulted in an increase in the value placed on the liabilities.

The value of the assets rose by 18% (or £7.5bn) between March 2014 and March 2015; this included strong outperformance above the investment benchmark which contributed an additional £703m to the fund. However, the increase in liabilities outweighed the growth in the fund's investments, leading to an increased deficit of £8.2bn, with the funding ratio falling from 89% to 86% in the year to 31 March 2015.

On a buy-out basis the funding ratio similarly weakened from 54% to 47%. During the most recent financial year (to 31 March 2016) the assets of the fund increased from £49.1bn to £49.8bn, however, the liabilities increased from £57.3bn to £59.8bn, leading to an increase in the deficit. This is largely due to the low return environment. The results are summarised in the table below.

FUNDING POSITION +

The 31 March 2015 and 2016 funding updates are based on projecting forward the assumptions used for the 2014 actuarial valuation (updated for market conditions); they do not involve the same detailed review of the underlying assumptions (including the financial, economic, sectoral assumptions for example) that takes place as part of the full actuarial valuation.

In between actuarial valuations we do not update our assumptions and we track the funding position assuming the discount rate is kept at the same fixed margin above gilt yields as it was at the last valuation. We re-visit all assumptions from first principles at each valuation so the 2017 valuation may use different assumptions. The funding position is very sensitive to small differences in assumptions. We are currently considering the assumptions to be used for the 2017 valuation and discussing these with employer and member representatives.

The trustee regularly monitors the funding position, in addition to periodic monitoring. The long-term investment outlook will again be reviewed more fundamentally at the next actuarial valuation. A reconciliation of the change in deficit is set out below.

Change in deficit between 31 March 2014 and 31 March 2016

DEFICIT DRIVERS +

The two most significant drivers are the level of investment returns (positive) and the effect of market conditions on the liabilities (negative). The assessment of the technical provisions deficit takes into account the expected level of future investment returns and to the extent that these are exceeded (or not met) in practice, the deficit will be reduced (or increased). The higher the investment returns, the greater the value of the assets, and the lower the gap between assets and future pension payments will be.

The actual investment returns achieved have been higher than originally expected and this has decreased the deficit by around £3.3bn over this period (relative to the valuation discount rate).

The increase in deficit due to the effect of market conditions reflects the prevailing low investment return environment. This has reduced the discount rate used to calculate the liabilities, leading to a higher value for these liabilities. The trustee expects to report, at the 2017 valuation, that the existing level of benefits will cost more in the future than at the previous valuation. This could lead to a discussion between the employer and member representatives about the balance between the benefits provided and the contribution rates payable for them. We are working closely with member and employer representatives on these matters (with the Joint Negotiating Committee).

What is the trustee board's funding plan?

The trustee's overarching funding principle, supported by the employers, is that the amount of funding and solvency risk taken should be proportionate to the amount of financial support available from the scheme's sponsoring employers, and specifically that there should be no increase in the reliance placed on that support over time. The trustee is, therefore, of the view that with the right economic conditions, and following appropriate dialogue, opportunities should be taken over the years ahead to reduce the amount of risk, and specifically reduce the amount of investment risk taken in the funding of defined benefits within the scheme.

At the 2014 actuarial valuation the trustee incorporated this long-term, gradual de-risking, into its funding approach, with the intention of reducing the amount of investment risk over a 20-year period. Details of the trustee's investment approach can be found in the Statement of Investment Principles which can be found in the '**How USS invests**' section.

The 2014 actuarial valuation recovery plan requires employers to contribute 2.1% of salaries towards the deficit over a period of 17 years. The trustee has extended the period of the recovery plan (from 10 years in 2011), following an extensive piece of work undertaken by its advisor on the ability of the scheme's sponsoring employers to financially support the scheme (which is generally referred to as the 'employer covenant'). The conclusion from that work was that there is good visibility of the ongoing strength of the covenant over the next 20 years, thereafter it becomes less visible. In calculating the contributions required for the recovery plan, allowance for additional investment return, over and above that which the trustee allows for in its prudent assessment of the liabilities, was assumed. The additional allowance being half the difference between the discount rate used to calculate the technical provisions and the expected return on assets.

Pension Protection Fund

The government established the Pension Protection Fund (PPF) in 2005 to provide benefits in the event that a scheme's sponsoring employer (or employers) becomes insolvent without there being sufficient funds available in the scheme. USS is recognised by the PPF as a multi-employer scheme with a joint, or shared liability. This joint liability is based on the 'last man standing' concept, which means that it would only become eligible to enter 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, the PPF would take over the payment of pension benefits to members, but the benefits received might be less than the full benefits earned within USS. The precise amount that the PPF would pay to each member would depend on the member's age, the period over which the benefits were earned and the total value of benefits.

FURTHER INFORMATION +

Statutory Statement

There has been no payment out of the scheme's assets over the period from April 2015 to March 2016 to the scheme's sponsoring employers, nor has this happened previously. There has been no intervention from the Pensions Regulator to use its powers to modify the scheme or to impose a direction or schedule of contributions.

CONTACT US +

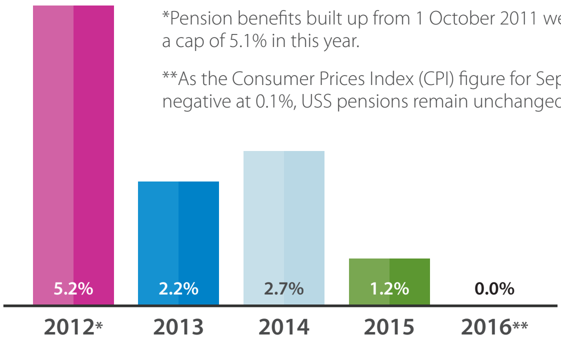
PENSION INCREASES

Pensions in payment and deferred benefits are reviewed annually and increases are applied in line with the rise in 'official pensions' (subject to a cap), such as those paid to members of public service schemes, including the Civil Service, Teachers and NHS pension schemes.

How are pension increases calculated?

SERVICE BUILT UP BEFORE OCTOBER 2011 +

SERVICE BUILT UP FROM 1 OCTOBER 2011 +



*Pension benefits built up from 1 October 2011 were subject to a cap of 5.1% in this year.

**As the Consumer Prices Index (CPI) figure for September was negative at 0.1%, USS pensions remain unchanged.

Pension increases in 2016 and 2017

Increases to official pensions are based upon the Consumer Price Index (CPI) measure for the preceding September. In September 2015, CPI was -0.1%, however, this does not mean pensions were reduced in April 2016. When CPI is negative no increase is applied.

For the year to September 2016 the rate of CPI was 1.0%, and we therefore anticipate that the increase to be applied to USS pensions in payment and deferment will be 1.0%, effective from 1 April 2017.

Changes to increases paid on Guaranteed Minimum Pensions (GMPs)

In April 2016, the single-tier State Pension was introduced, replacing the previous State Pension system. This has meant changes to the way that the responsibility for paying pension increases on certain elements of USS pension (the GMP) is shared between USS and the government. The single tier State Pension will only affect some members, not those who have already reached State Pension age and are in receipt of a State Pension.

You can read more about the changes and get an estimate of your State Pension by visiting **the government website**.

RESPONSIBLE INVESTMENT

At USS our duty is to protect and enhance the value of our investments over the long-term, with the ultimate aim of providing secure pensions for our members.

We aim to achieve this by being an active and responsible long-term investor and steward of the assets and markets in which we invest.

Our activities in this area fall into three main types:

Integration: we seek to include material environmental, ethical, social and corporate governance (ESG) considerations within the investment decision making processes, where there is a financial bearing;

Engagement, voting and stewardship: fulfilling our stewardship obligations as an active owner and using our influence as a major institutional investor to promote good ESG practices;

Market transformation activities: including engagement with policy makers and regulators in markets in which we invest, to articulate the concerns of asset owners and long-term investors.

INTEGRATION +

VOTING +

MARKET TRANSFORMATION ACTIVITIES +

In this section you will find a brief update of our activities in each of these areas during the 2016/17 year. For more information please visit our **website**.

In November 2016, the Financial Reporting Council (FRC) named USS as one of the top pension funds for its stewardship reporting, following an assessment of almost 300 signatories of the Stewardship Code. The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve returns to shareholders. The Code sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. USS was classed in Tier 1 which indicates we provide a 'good quality and transparent description of our approach to stewardship, and provide explanations of an alternative approach where necessary'.

Investing in tobacco

You will see from the charts on page 9 that within our equities investments – that is the stocks and shares we hold – investment in British American Tobacco (BAT) is one of the largest holdings supporting our defined benefits. As at 31 March 2016 this investment is 0.4% of the total assets the trustee holds.

We know that within our membership, the investment community, and wider society, there are strong views on whether pension schemes should invest in tobacco stocks. We take these views seriously and keep our approach under review, whilst continuing to be mindful of the legal context in which we operate and our fiduciary duty to members.

The investment case for tobacco is difficult to ignore. The tobacco industry has generated a cumulative total return of 1264% over the past 15 years, significantly higher than any other sector. In 2016, BAT generated just over £55 million for the scheme. This is 0.11% towards the scheme's investment performance return. Historic performance does not guarantee future returns and our managers make decisions based on their expectations of future return drivers, such as growth and profitability for companies, while taking into account the risks and headwinds.

With one of the largest responsible investment teams in the world, USS is able to work with the companies in which we invest on a range of issues. Within the tobacco industry this can include issues of smuggling, political donations, remuneration and marketing to minors. During the year we have also met with groups lobbying against investing in tobacco and shall continue to listen to their views.

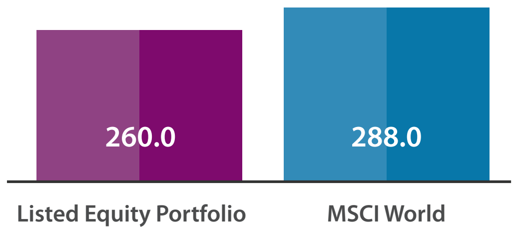
THE WEIGHT OF CARBON +

Transparency of our approach

USS is a signatory to the Montreal Pledge, a global effort to engage investors in monitoring and understanding the impacts of climate change. Signing the pledge includes a commitment to publish regularly the results of carbon footprinting. We have been estimating the carbon footprint of the internally managed public equity investments for a number of years and, through our active investment decisions, we have remained consistently 'underweight', that is, less carbon intensive than our benchmarks.

The footprint of the scheme's public equity portfolios, when last assessed on 31 March 2016, was as follows:

Carbon Intensity of Public Equities Portfolio vs. MSCI World (March 2016)



Footprinting in this way means we can identify which companies are most exposed to carbon, and see whether companies are increasing or decreasing their exposure over time, and which are best at reporting and managing emissions.

As a long-term investor, the trustee does require its investment managers to take material financial factors into account, and to the extent that climate change poses a material financial threat to our investments, that is factored in to the price we pay for our investments and our return expectations.

As active stewards of the capital we invest on your behalf, we also engage with companies to encourage them to manage any climate risk they face. For example, in 2016 we wrote to the companies most exposed to climate change risk to find out more about how they were adapting their businesses to the agreement at the Paris Climate Change Conference to limit global temperature rise to 2 degrees C (or aspirationally 1.5 degrees C). We also established, with other pension funds, the Transition Pathway Initiative to track how companies are responding to the shift to a 2 degree world.

Making ethical choices

We know that matters such as climate change and investing in tobacco are important issues for some members so, in October 2016 when we launched the USS Investment Builder, we created two ethical options.

USS is one of the few schemes to offer members an ethical lifestyle fund alongside an ethical self-select option. These funds screen out a number of companies and sectors based on ethical factors, which have been specifically developed for USS members. These include factors such as oil and gas, which produce greenhouse gases and contribute to climate change, and tobacco.

A small number of members have already opted to take up alternatives to the default strategy:

Number of members investing in the USS Investment Builder:

59,058*

****As at January 2017***

Investment	Members
Custom strategy chosen entirely from self select options	156
Default lifestyle fund	51,405
Ethical lifestyle fund	128
Mixed strategy which includes a combination of a lifestyle and self-select options	7,369

SCHEME NEWS

Launch of the USS Investment Builder

The USS Investment Builder, the new defined contribution (DC) section of the scheme, was launched in October 2016.

It's an optional section you can join in addition to the USS Retirement Income Builder (if you earn over the salary threshold (£55,000 for 2016/17) you will join automatically) and offers you a new way to enhance your retirement savings, with additional investment opportunities. You can choose to take the match at My USS (see below). You and your employer will then both contribute an additional 1% of salary to the USS Investment Builder, the contributions are invested, and at retirement you can take the value of your USS Investment Builder account flexibly, to supplement your USS Retirement Income Builder. The value of your USS Investment Builder at retirement is based on the contributions made to your account and the performance of the funds that your account is invested in.

The flexibility of the USS Investment Builder means choice - you choose where your contributions are invested and how you use your money. Learn more by reading the **USS Investment Builder guide**.

My USS

My USS, the online service for managing your USS membership, is now available for active members (those currently paying into the scheme). My USS is where you can go to make your contribution and investment choices to the USS Investment Builder, and also where you can update personal details, such as your target retirement age.

The match

If you choose to take the match and contribute at least an **additional 1%** of salary to the USS Investment Builder you'll receive a matching contribution of 1% of salary from your employer. This has already proved extremely popular with our members and, as at the end of last year, there were **over 23,000 members** taking advantage of the opportunity.

HOW THE MATCH WORKS +

You'll need to **register** for My USS in order to take the match. For more information on how it works please view our **animated guide**.

USS's constitution

Universities Superannuation Scheme was established in 1975 to provide quality pension provision for academics and other senior employees working in higher education and related sectors.

It was set up under trust, a legal arrangement meaning the assets are held in a trust fund for the sole purpose of providing you and your dependants with an income in retirement. The operating costs are paid by your employer as part of the 18% contribution paid to fund the scheme.

Since 2016 there have been two sections of the scheme; the USS Retirement Income Builder and the USS Investment Builder. The USS Retirement Income Builder guarantees you a certain level of retirement income. The trustee achieves this by investing the contributions you and your employer pay to us in a range of different types of assets. The money we make from those investments contributes to the fund used to pay your pension when you retire.

The USS Investment Builder provides a different way to save for your retirement. Both you and your employer pay into the scheme and that money is invested in one of a range of funds which you can choose from. The USS Investment Builder benefits from the economies of scale available as a result of being part of the trust, meaning all but one of the USS Investment Builder funds is provided at no cost to members.

The USS trustee board is appointed to oversee the strategic direction and operation of the scheme. The board is made up of four directors nominated by Universities UK, three directors nominated by the University and College Union and five independent directors. You can find out more about the board's membership on our **website**.

The member (UCU) and employer (UUK) representative bodies are also an integral part of our governance structure; any changes to scheme rules must be approved by the Joint Negotiating Committee which is formed of five nominees from UUK, five from UCU, and has an independent Chairman, Sir Andrew Cubie.

In the **forty-two years** since its inception, the scheme has grown from just **13,000 members in 1975**, to **more than 375,000** today, with the value of our **assets increasing** from just over **£10 million** to more than **£57 billion.**

HOW HAS USS DEVELOPED? +

Implications for USS of the UK's vote to leave the European Union

In June 2016 the UK voted to leave the European Union (EU). We know that this means there will be changes to the political and regulatory landscapes in which we all operate. USS is a long-term investor, globally diversified and backed by the most prestigious employers in the higher education (HE) sector; we are well-placed to respond to the changes the outcome of the referendum will bring.

The UK's HE sector is resilient; it has a strong global reputation, is able to attract students from countries beyond the EU, and is well-positioned to make the most from the continuing strong demand for student places. Additionally, the sector's capacity for and capability to deliver outstanding research performance means it will continue to attract funding. There may be short-term uncertainty, and significant difficulty for individual employers, but over the medium to long term the sector will remain strong. This is important, as the financial health of the sector is an important factor in managing scheme funding.

As an institutional investor, we invest globally, and we will need to review the implications of any proposed constitutional changes for areas such as tax, counterparty exposure and investor protection. There will be much contingency work to do, as negotiations proceed. Of course, the actual impact will depend on the outcomes of discussions that have not yet begun. We will continue to work with our advisers and representative bodies, in both the pensions and investment industry, to monitor developments in these areas closely. USS will seek to protect and improve our position and that of our members (including those pensioners we provide for in other EU countries - some 2% of our pensioner members), as we enter these uncharted waters.

Pensions tax allowances

HM Revenue & Customs set allowances to the maximum benefits you can earn and still benefit from tax relief, namely the annual allowance (AA) and the lifetime allowance (LTA).

CHANGES TO THE AA +

REDUCTION TO THE LTA +

More information on the changes is available **online**.

The government’s plan to tackle pension scams

In his Autumn Statement last year, the Chancellor announced a government consultation on the growing problem of pension scams. All too often, people are being tricked by fraudsters into handing over their life savings. If you have not yet retired, here are three key warning signs to look out for:

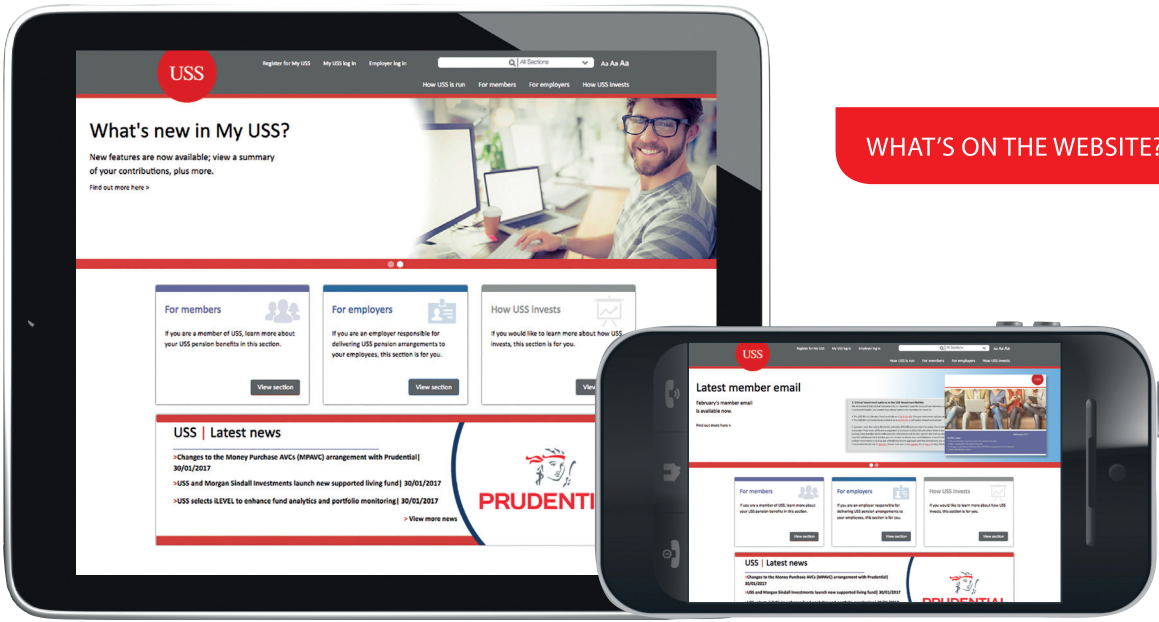
- Cold calls, text messages or website pop-ups offering a ‘free pension review ’or ‘ investment opportunity’.
- Claims that you can access your pension before age 55.
- Offers encouraging you to transfer your money overseas.

USS will never encourage you to transfer out your benefits.

Transferring your pension away from USS is an important decision and we recommend that you speak to an independent financial adviser (IFA) before making a decision. In some cases the law requires that you must evidence you have taken financial advice from an IFA. You can find one in your area at www.unbiased.co.uk. The Pensions Regulator has published a useful guide with more information about how to avoid scams and what to look out for.

FURTHER INFORMATION

There are a number of tools you can use to find out further information about the scheme. Visit **our website** for the most up-to-date information.



WHAT'S ON THE WEBSITE? +

YOUR TRUSTEE BOARD

The trustee board is responsible for the proper running of the scheme; from the collection of contributions to the investment of assets and payment of benefits. In this section you can see who the trustee board members are and the advisers who help them throughout the year.

Universities Superannuation Scheme Limited (the trustee company)
Universities Superannuation Scheme Limited is the trustee company established solely to administer the scheme. Regulated by the Pensions Regulator, it operates the pension scheme from its offices in Liverpool and London.

USS Investment Management Limited
In 2012, the scheme's London investment office was incorporated into a wholly-owned subsidiary of the trustee company called USS Investment Management Limited. Regulated by the Financial Conduct Authority, it delivers investment and related activities for the trustee company.

For more information, see '**How USS is run**'.

Four directors are appointed to the trustee board by Universities UK (UUK).

Three directors are appointed by the University and College Union (UCU), one of them a pensioner director.

A minimum of three/maximum of five are independent directors appointed by the board.

DIRECTORS OF THE TRUSTEE COMPANY +

GROUP EXECUTIVE OFFICERS AND ADVISERS +

USS

A large print version of this Members' Annual Report is available on request from USS. Telephone 0151 227 4711.

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Contact details

Members currently paying into USS
Contact their employing institution with any enquiries relating to their benefits.

Deferred members and those receiving benefits from the scheme
Contact USS directly at:

Universities Superannuation Scheme Limited
A: Royal Liver Building, Liverpool, L3 1PY
T: 0151 227 4711 (Local rate 0845 068 1110)
F: 0151 236 3173
W: www.uss.co.uk

OTHER USEFUL CONTACTS +