

Report and Accounts

for the year ended 31 March 2001

Universities Superannuation Scheme Limited is the corporate trustee of one of the largest private sector pension funds in the UK with assets of over £20 billion.

It was established in 1974 to administer the principal pension scheme for academic and senior administrative staff in UK universities and other higher education and research institutions.

The head office is at Royal Liver Building, Liverpool and the investment office is at Angel Court, London.

The registered number of the Trustee Company (USS Ltd) at Companies House is 1167127

The reference number of the Scheme (USS) at the Pension Schemes Registry is 100201003

USS

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FRONT COVER

Centre: USS Ltd's registered office in the Royal Liver Building, Liverpool.

Properties within the USS fund:

1 - Whiteley Village, Southampton. 2 - Stockley Park, Heathrow.
3 - Observatory, Manchester. 4 - Beechwood Shopping Centre, Cheltenham.
5 & 6 - Midsummer Place, Milton Keynes.

The year to 31 March 2001 saw the scheme's membership continue to grow although poor investment returns generally saw the value of the fund fall over the year for the first time since the scheme was established. The scheme's active membership increased by 7.3% from 85,100 to 91,300 and there was substantial growth in the numbers of pensioners and those entitled to deferred benefits to 33,100 (up by 5.4%) and 45,400 (up by 8.1%) respectively. At 31 March 2001 the fund had total assets of over £20 billion.

It was a poor year for pension fund performance generally and for the fund. The fund's return of -3.6% was below both price inflation and its peer group average although over the longer term the fund's performance remains ahead of its target and comfortably exceeds the assumptions used in the actuarial valuation of the scheme.

Last year we reported on the trustee company's decision to adopt a policy of more active engagement on socially responsible issues with those companies in which the fund is invested. Three specialist advisors have now been recruited, with expertise in corporate governance, environmental and social issues and they are active in monitoring the performance of companies against relevant international or benchmark standards.

We have also begun developing the mechanisms whereby these additional resources can best be utilised and made accessible to fund managers so that they can make informed decisions on these aspects of the investment process.

Development and enhancement of the trustee company's new pensions administration software, the Universal Pensions Management system, has continued since its implementation in August 2000.

Increased productivity has been achieved following the implementation although it is still a relatively new product and a number of operational difficulties have been encountered in using it. Work in hand built up during, and subsequent to, the implementation of the system and this, together with an unexpectedly high increase in incoming work, resulted in work in hand reaching a level that had not been anticipated. Action is being taken within the Liverpool office to ensure the return to a satisfactory level of service. We are grateful to member institutions and individual employee members for their support and tolerance.

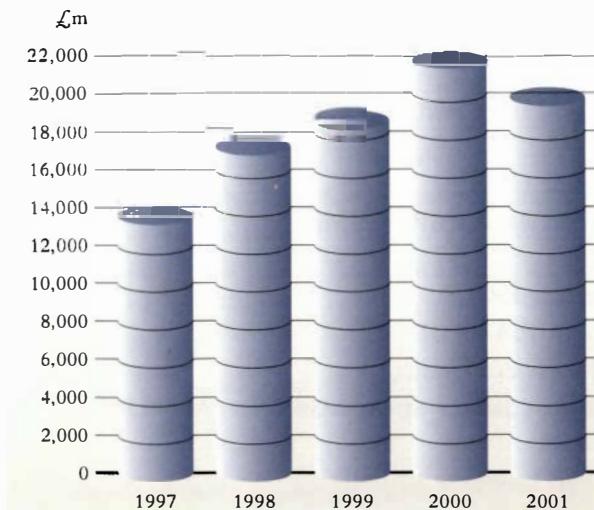


Graeme J Davies
Chairman



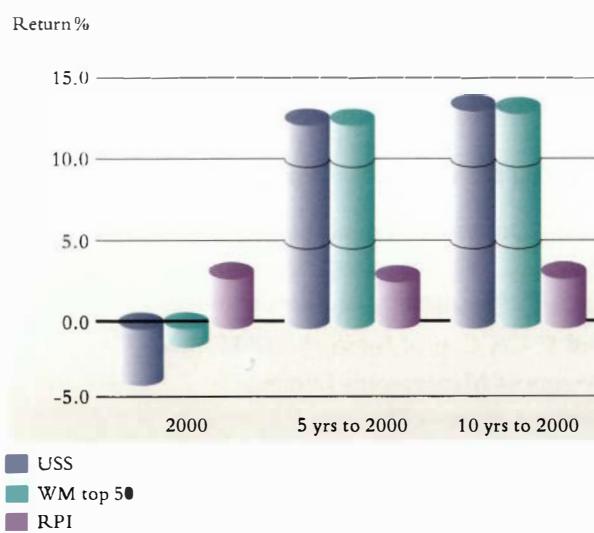
David B Chynoweth
Chief Executive

FUND



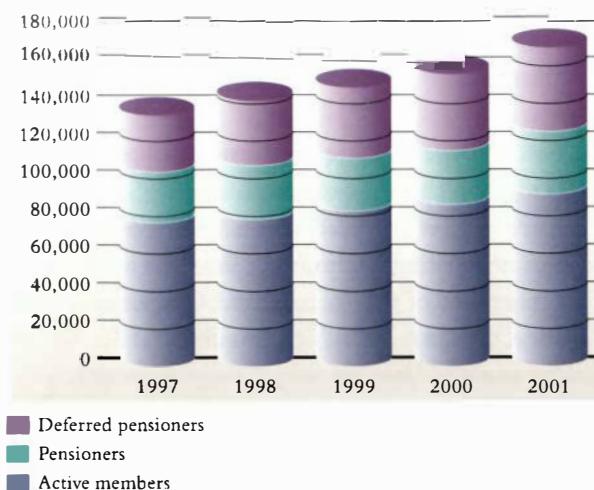
The fund has increased from £13.5 billion in 1997 to £20 billion as at 31 March 2001. However, poor investment returns generally in the last year have seen a decrease in the value of the fund's investments compared to the previous year. More details are given in the investment committee report on page 17 and in the five year summary of the fund accounts on page 62.

PERFORMANCE



After the fund's exceptional investment returns in 1999, 2000 was a poor year with a total for the fund of -3.6%, behind both price inflation and the WM50 benchmark return. However, over both five years and ten years the fund has outperformed the WM50 average and comfortably exceeded the RPI. More details are given in the report of the investment committee on page 17.

MEMBERSHIP



The membership of the scheme continues to grow steadily. As at 31 March 2001 the total membership was 169,800 an increase of 7% from last year and 27% from four years ago. More details are given in the five year summary of the fund accounts on page 62.

PRINCIPAL OFFICERS AND ADVISERS

The principal officers and advisers of the trustee company at 1 August 2001 are:

Chief Executive	D B Chynoweth BA CPFA FCCA FIMgt
Chief Investment Officer	P G Moon
Chief Accountant	C S Hunter BSc CA
Company Secretary	J P Williams BA ACIS MIPD MIMgt
IT Manager	D S Andrews
Surveyor	R G Walden BSc FRICS
Actuary	E S Topper MA FIA FPMI of William M Mercer Limited Clarence House, Clarence Street, Manchester M2 4DW
Solicitors	DLA India Buildings, Liverpool L2 0NH
Auditors	PricewaterhouseCoopers 8 Princes Parade, St Nicholas Place, Liverpool L3 1QJ
Bankers	Barclays Bank Plc 4 Water Street, Liverpool L69 2DU
Property Consultants	LaSalle Investment Management 33 Cavendish Square, London W1A 2NF

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

Solicitors	Clifford Chance, Dundas & Wilson, Lawrence Graham, Hammond Suddards Edge, Mitchells Roberton, Fried Frank Harris Shriver & Jacobson
Investment managers	Baillie Gifford & Co, Capital International Limited, Schroder Investment Management Limited
Custodians	Deutsche Bank, JP Morgan Plc
Investment performance measurement	Investment Property Databank Ltd, The WM Company
Property valuers	Colliers Ritblat Erdman
Computer software	Comino plc, Azlan Limited, Oracle Corporation UK Ltd, Xansa Ltd
Computer hardware	Hewlett-Packard Limited
Data recovery	Synstar Business Continuity Limited
Insurers	Royal & Sun Alliance

The trustee of Universities Superannuation Scheme (USS) is the trustee company, Universities Superannuation Scheme Limited (USS Ltd), which is appointed under USS rule 20.1. The statutory power of appointing new trustees applies provided that a new trustee may not be appointed without the approval of the joint negotiating committee. The trustee company is also the administrator of the scheme for the purposes of the Income and Corporation Taxes Act 1988. The registered office of the trustee company to which enquiries about the scheme generally or about an individual's entitlement should be sent is:

Universities Superannuation Scheme Limited
Royal Liver Building, Liverpool L3 1PY

The membership at 31 March 2001 of the principal committees was as follows:

Management Committee

Appointed by Universities UK (UUK)

Professor Sir Graeme Davies (Chairman), Professor Sir Martin Harris, M S Potts,
Professor Sir Gareth Roberts

Appointed by the Association of University Teachers (AUT)

Mrs Angela Crum Ewing, Dr J M Goldstrom, J W D Trythall

Appointed by the Higher Education Funding Councils (HEFCs)

Sir Brian Fender

Co-opted

C D Donald (Deputy Chairman), A S Bell, L Collinson, Lord Mark Fitzalan Howard

Finance & General Purposes Committee

Appointed by the management committee

C D Donald (Chairman), L Collinson, Mrs Angela Crum Ewing,
Professor Sir Martin Harris, M S Potts, J W D Trythall

Investment Committee

Appointed by the management committee

Lord Mark Fitzalan Howard (Chairman), A S Bell, C D Donald, C E Hughes,
P V S Manduca, Dr D C Nicholls, J W D Trythall

Audit Committee

Appointed by the management committee

Dr Christine Challis (Chairman), Mrs Angela Crum Ewing, C D Donald,
Dr J M Goldstrom

Remuneration Committee

Appointed by the management committee

L Collinson (Chairman), Mrs Angela Crum Ewing, Professor Sir Gareth Roberts,
J W D Trythall, M S Potts

Advisory Committee

Appointed by UUK

A D Linfoot, Dr A Bruce, D W Sims

Appointed by AUT

C Banister, R Brown, Ms J McAdoo (Chairperson)

Joint Negotiating Committee

Independent Chairman

Sir Kenneth Berrill

Appointed by UUK

Dr A Bruce, Dr S G Fleet, B Lillis, A D Linfoot, I G Thompson

Appointed by AUT

Ms C Cheesman, Dr J M Goldstrom, Ms P Holloway, J W D Trythall, A Waton

MANAGEMENT COMMITTEE MEMBERS as at 1 August 2001



Professor Sir Graeme Davies, Chairman

Graeme Davies (64) has been Principal and Vice-Chancellor of the University of Glasgow since 1995. He was previously Vice-Chancellor of the University of Liverpool from 1986 to 1991 and Chief Executive of successively the Universities Funding Council and the Higher Education Funding Council for England from 1991 to 1995.

He has been chairman of USS Ltd since 1 April 1996 having previously served as a UUK nominated trustee from 1988 to 1991 and as representative of the funding councils from 1991 to 1995.

USS LTD DIRECTORS

Colin D Donald



Colin Donald (66) has been a director of USS Ltd as a co-opted member of the board since 1 July 1990 and deputy chairman since 1996. Until 1994 he was a partner and latterly a consultant with the firm of McGrigor Donald, solicitors in Glasgow specialising in private client, trust and charity work. He was a lay member of the Court of the University of Glasgow from 1980 to 1997 and chairman of the university's non-academic staff pension scheme from 1984 to 1997.

Len Collinson



Leonard Collinson (67) is the founder and a director of Collinson Grant Group, chairman of both Central Plastics and the National Mentoring Network and deputy chairman of the North West Regional Assembly. He has been a director of USS Ltd since February 1989.

A S Bell



Scott Bell (59) joined Standard Life in 1958 and has been the group managing director since 1988. He is a member of the Board of the Association of British Insurers and a member of the Financial Reporting Council. He has been the Honorary Canadian Consul in Scotland since 1994. He has been a director of USS Ltd since August 1996.

Professor Sir Martin Harris



Martin Harris (57) has been vice-chancellor of the University of Manchester since 1992. He was previously vice-chancellor of the University of Essex from 1987 to 1992 and a member of the University Grants Committee 1984 to 1987. He was chairman of the Committee of Vice-Chancellors and Principals (now Universities UK) from 1997 to 1999. He has been a director of USS Ltd since 1 April 1991.

Sir Brian Fender



Brian Fender (66) has been Chief Executive of the Higher Education Funding Council for England since 1995 and serves as a representative of the Funding Councils. He was vice-chancellor of Keele University from 1985 to 1995. He is a non-executive director of BTG plc and a member of the Meteorological Defence Board. He has been a director of USS Ltd since October 1995.

Dr Max Goldstrom



J Max Goldstrom (72) was senior lecturer in Economic and Social History in the Queen's University of Belfast until his retirement in 1994. He has been a member of the AUT national executive since 1987 and served as Honorary Treasurer from 1992 to 1998. He is currently the Honorary Treasurer of the Council for Assisting Refugee Academics and Trustee of the AUT Staff Pension Fund. He was appointed as an AUT nominated director of USS Ltd in 1998 and has been a member of the Joint Negotiating Committee since 1992.

Lord Mark Fitzalan Howard

Mark Fitzalan Howard (67) is currently chairman of Invesco Income Growth Trust Plc and a director of Renaissance Growth and Income Trust Plc. He is also chairman of the Royal Geographical Society's Investment sub-committee. Previously he was an executive director of Robert Fleming Holdings Ltd (1971-1994), chairman of the Association of Investment Trust Companies (1981-83), treasurer of The Scout Association (1987-96) and a member of the Honorary Investment Advisory Committee of the Public Trust Office until 1994. He has been a director of USS Ltd and chairman of the investment committee since April 1993.

Michael Potts



Michael Potts (62) is President of the Council of the University of Liverpool, having served as Deputy Treasurer and Treasurer to the university between 1986 and 1999. He is a chartered accountant and retired from Coopers & Lybrand in 1993 after 20 years as senior partner in the Liverpool office. He is currently chairman of the North West Cancer Research Fund and a non-executive director of a number of private companies. He was appointed a Deputy Lieutenant for Merseyside in 2000. He has been a director of USS Ltd since April 1999.

Angela Crum Ewing



Angela Crum Ewing (71) was formerly Deputy Registrar of the University of Reading from which she retired in 1995. From 1995 to 1998 she was a consultant to the Moscow School of Social and Economic Sciences. Before her retirement she chaired the national Administrative Staff Committee of the Association of University Teachers (AUT) from 1986 to 1991 and was national president of the AUT from 1991 to 1992. She has been a trustee of the AUT pension fund since 1994. She was appointed the first pensioner director of USS Ltd in October 1997 having previously served as a member of the Joint Negotiating Committee from 1989 to 1990 and of the Advisory Committee from 1990 to 1994.

J W D Trythall



Mr J W D (Bill) Trythall (56) has taught 20th century history at the University of York since 1969. He has been active in the labour movement in York. For 14 years he was a member of the national executive committee of the Association of University Teachers and served as its President in 1989/90. He is at present a trustee of the association. He has a broad interest in pensions provision and serves on the advisory committee of the Pension Trustees' Circle and on the advisory group for the Just Pensions project. He has been a director of USS Ltd since October 1988.

Baroness Diana Warwick



Diana Warwick (56) was appointed chief executive of the Committee of Vice-Chancellors and Principals in 1995 (now Universities UK). Previously she had been for three years Chief Executive of the Westminster Foundation for Democracy and from 1983-1993 she was the General Secretary of the Association of University Teachers. She was a member of the Employment Appeals Tribunal from 1984 to 1999 and the Standing Committee on Standards in Public Life from 1994 to 1999. From 1985 to 1995 she served as a board member of the British Council, was a governor of the Commonwealth Institute until 1995, and a member of the TUC General Council between 1989 and 1992. She has been a director of USS Ltd since June 2001.

MANAGEMENT COMMITTEE

The management committee submits its twenty-sixth annual report on the progress of USS. Separate reports on the activities of the investment committee, the joint negotiating committee and the advisory committee follow this report.

Committee members

There have been no changes in membership of the committee during the year.

Professor Sir Gareth Roberts ceased to be a UUK (Universities UK - formerly CVCP) appointed director of the trustee company on 31 March 2001. We are most grateful to Sir Gareth for his contribution to USS matters during his three year term of office. Sir Gareth was succeeded on 20 June 2001 by Baroness Diana Warwick.

Under the Articles of Association (constitution) of the trustee company, the management committee comprises the trustee company's board of directors. As indicated earlier in this report four of the directors on the board of the trustee company are appointed by UUK (formerly CVCP). Three directors are appointed by the AUT of whom at least one must be a USS pensioner member. One director is appointed by the HEFCs. UUK, AUT and the HEFCs have the power to remove their respective appointed directors. A minimum of two and a maximum of four directors are co-opted directors, appointed by the management committee with the prior approval of the joint negotiating committee. The approval of that committee is not however required for the reappointment of a co-opted director on the expiry of his or her period of office. USS Ltd directors normally serve a three year term but are eligible for reappointment in the above manner. The Articles of Association also provide for the removal of any director where (in various circumstances) he or she is prohibited from acting as a director.

Institutions

At 31 March 2001 there were 295 institutions which had become member institutions by completing a deed of accession. They comprised all the 'old' UK universities (ie those established prior to 1992), including the constituent schools and colleges of the universities of London and Wales, all the colleges of the universities of Oxford and Cambridge and 154 other institutions.

Changes in institutions participating occurred as follows:

New participating institutions

Higher Education South East
Sheffield Hallam University★
St Johns College, Durham
University of Greenwich★
University of North London★

*denotes institution admitted only for employees who had been members of USS whilst in a previous employment.

Institutions which ceased to participate:

Mathilda & Terence Kennedy Institute of Rheumatology
Wye College, London

Expansion of USS

As reported last year, on 10 December 1999 rule amendments were enacted to extend the eligibility for membership of USS to allow both new institutions to join and current institutions to admit further categories of staff to USS. Some institutions have already decided to admit further categories of staff that were previously excluded and discussions remain ongoing with other institutions.

In seeking to promote the existence of USS the committee continues to set no expectations or targets for increased membership numbers. The only objective that has been set is to make the benefits of participation in USS known to all organisations that are eligible to join USS, and to those that can expand the membership of USS within their organisation, encouraging them to do so where appropriate. The officers continue to attend regional meetings of the British Universities Finance Directors Group (BUFDG) to convey the expansion message and answer questions and receive feedback.

Scheme membership

During the year 14,054 new members joined the scheme and at 31 March 2001 the total membership, including pensioners and those entitled to deferred benefits, was 169,808 compared with 158,510 a year earlier. Further details of the changes in membership during



Lyn Darcy (right) and Alex Melville-Harwood at the Liverpool reception desk.

the year are contained in the section "Membership Statistics" on page 36 and over the five years ended 31 March 2001 in the Summary on page 62.

The proportion of eligible new employees choosing not to join USS was 17%, compared with 18% last year. While there may be valid reasons for the decisions of some employees not to join USS, the figure continues to be of concern to the committee. Similarly, the extent of the variation between individual institutions

is considerable although this may in part reflect the composition of their staff. The committee has attempted to give widespread publicity to the serious disadvantages that may be experienced if eligible employees do not decide to join USS. Of particular concern remains the position of the dependants of an employee who has chosen not to join thereby foregoing the important death benefits available to dependants under USS. The alternative of the State Earnings Related Pension Scheme (SERPS) continues to provide little death benefit and most personal pensions provide only a modest benefit. The committee recognises that some employees may wish to change their original decision not to join USS, possibly because their circumstances have changed. Where an eligible employee has chosen not to join, perhaps because they have no dependants or are employed on a short-term contract, an option to join at a later date is available.

Stakeholder pensions

Stakeholder pensions legislation became effective on 6 April 2001 and employers have until October 2001 to comply with the requirements. There are certain circumstances which exempt employers from the legislation, one of the main exemptions arising when membership of an occupational pension scheme is offered as an alternative to a stakeholder pension.

Many of the institutions would have been obliged to comply with the legislation in respect of the significant numbers of academics that were employed on irregular contracts (although not all such employees would be subject to the legislation). However, the trustee company has extended the eligibility conditions within the twenty-third amending deed such that employees on irregular contracts may now join USS.

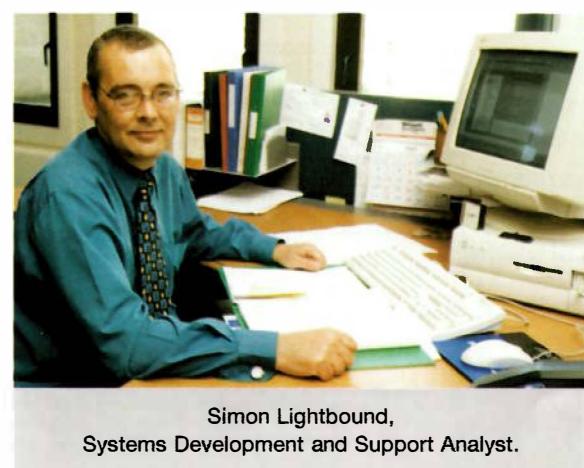
This removed one obstacle for institutions wishing to avoid any involvement with stakeholder pensions although some institutions are still intending to offer the facility since members earning

less than £30,000 per annum can pay into a stakeholder pension while continuing in membership of USS. This could provide an alternative to the money purchase AVC option currently offered through the Prudential if the member and/or his/her adviser consider it appropriate.

Rule amendments

The current USS rules are represented by the Supplemental Declaration of Trust which was executed on 7 February 1994 and, as at 31 March 2001, twenty three deeds of amendment. Four deeds of amendment were executed during the year. The twentieth deed was executed on 11 May 2000 and provided for the following benefit improvements:

- death in service lump sum increased from 2.5 to 3 times pensionable salary;
- the removal of actuarial reductions for spouses and dependants who were more than 10 or 15 years younger than the deceased member;
- an additional 1% increase awarded to active and deferred pensioners.



Simon Lightbound,
Systems Development and Support Analyst.

The twenty-first deed was executed on 12 October 2000 and dealt principally with rule changes that were necessary following maternity and parental leave entitlements arising out of the Employment Relations Act 1999. The twenty-second deed was executed on 1 February 2001 and introduced an augmentation power to facilitate the settlement of any proven maladministration claims and a number of miscellaneous minor rule amendments. The twenty-third deed was executed on 10 March 2001 and affords eligible employees in irregular employment the opportunity to join the scheme. More details on the above rule amendments are given in the report of the joint negotiating committee on page 30.

Pensions sharing on divorce

New legislation came into force on 1 December 2000 relating to the sharing of a member's pension scheme benefits with his/her ex-spouse in the event of their divorce. A comprehensive fact sheet was produced for members and their advisers setting out the information that USS Ltd would provide and how a court order for sharing would be applied to their benefits. In view of the significant amount of work involved and the potential number of cases the management committee decided to make a charge, in line with NAPF's recommendation, to implement a court order for pension sharing. There were more than 300 requests for information up to 31 March 2001 but no court orders were received.

Pension increases

Rule 15 of USS provides that pensions in payment, deferred pensions and deferred lump sums payable from the main section shall be increased in a similar manner to the increases provided for official pensions under the Pensions (Increase) Act 1971 (although increases on the amount of pension which represents the Guaranteed Minimum Pension (GMP) are treated differently - see below). USS pensions were increased by 2.1% on 21 April 2000.

On 21 April 2001 pensions which satisfied certain qualifying conditions and began before 25 April 2000 were increased by 3.3% with smaller increases applying for pensions which began after that date. Deferred pensions and deferred lump sums were increased by the same rate.

That part of the pension payable from the main section of USS which represents the pre-1988 GMP is generally not increased by USS as increases are paid by the Department of Social Security, as are increases in excess of 3% on that part of the pension which represents the post-1988 GMP. More detail on the way in which increases are applied to the GMP is given in the USS booklet *Pension Increases - Information for USS Pensioners* which has been issued to all USS pensioners.

Rule 15 also provides that pensions payable from the supplementary section shall be increased to the extent that the trustee company, acting on actuarial advice, decides. As a result, pensions arising from the supplementary section were increased at the same rates as those that applied to the main section.

Contribution rates

The rates of contributions payable by members and institutions between 1 April 2000 and 31 March 2001 were as follows:

USS Main Section	Member	6% of salary
	Institution	14% of salary
USS Supplementary Section	Member	0.35% of salary
	Institution	Nil

Actuarial matters

The actuary has carried out an actuarial review as at 31 March 2001 which examines the progress of the scheme since the last valuation as at 31 March 1999. A statement by the actuary on the review is shown on page 58. It draws the conclusion that the overall funding level of the scheme is expected to have reduced since the 2000 review to a level similar to that revealed at the 1999 valuation. The assets of the scheme therefore remain more than sufficient to cover the accrued liabilities as at 31 March 2001.

The scheme actuary Mr M B Reid advised us of his intention to concentrate on investment consultancy and as a result the management committee carried out a full review of the position of actuary to the scheme. A decision was taken to retain the services of William M Mercer Limited and to appoint Mr E S Topper as actuary to the scheme with effect from 1 June 2001.

The management committee wishes to record its appreciation of Mr Reid's services to USS over the past six years.

Accounting matters

The principal financial statements for Universities Superannuation Scheme and Universities Superannuation Scheme Limited (the trustee company) are set out later in this report.

The accounts of the trustee company show an increase in operating costs from £20.8 million in 1999/2000 to £21.9 million in 2000/01, an increase of 5.3%.

Investment management costs have increased by 9.3% while other administration costs have fallen by 3.5%. Although the fund's investment performance has been well below that of the



David Andrews, IT Manager (left) and Mark Hughes, Business Systems Manager.

previous year investment management costs have remained high mainly due to another excellent year from one of the external managers, Capital International, whose fee is performance related.

The fall in other administration costs is due mainly to the receipt during the year of VAT on Liverpool administration costs dating back to 1984. This followed negotiations with HM Customs & Excise which have been ongoing for a number of years. Excluding this amount, other administration costs increased by 2.2%. The treatment of certain costs in the previous year as Year 2000 costs (primarily those relating to the implementation of a new pensions payroll system which would ordinarily have been capitalised) also contributed to the relatively low increase in costs from the previous year.

Our negotiations with HM Customs & Excise also resulted in further VAT recoveries for USS institutions. The total amount recoverable by them in respect of costs backdated to 1984 is dependent on the proportion of VAT recoverable by each institution but is likely to be in the region of £300,000.

Full details regarding the operating costs and a review of the activities for the year are given in the Directors' Report & Accounts on page 63.

Investment policy

The arrangements for management of the assets and custody, together with the approximate proportion managed by each manager at 31 March 2001, are as follows:

- (a) 25.5% is administered internally on the advice of HSBC James Capel Quantitative Techniques on a basis to track the FTSE All-Share Index of UK equities (with J P Morgan [formerly Chase Manhattan Bank] as custodian);
- (b) 49.4% is managed internally by the trustee company's London Investment Office (with J P Morgan as custodian). Of this 41.4% are securities and 8% are property assets;

(c) 7.8% is managed by Baillie Gifford (with Deutsche Bank as custodian); 8.3% is managed by Capital International (with Deutsche Bank as custodian); 7.9% is managed by Schroder Investment Management (with Deutsche Bank as custodian);

(d) 1.1% of the fund is represented by insurance policies.

The managers in (b) and (c) above each manage their share of USS securities on the basis of a balanced brief.

The year to 31 December 2000 was a poor year for pension fund performance generally with negative returns for the

average fund for only the third time in the last twenty years. It was also a poor year for the fund. The fund's performance for the year failed to meet its target, ranking in the 90th percentile of the WM 50. However over the last five years performance is exactly in line with other large funds while over ten years it ranks just outside the top third of funds in its peer group.



Raj Thamotheram, Senior Socially Responsible Investment Adviser, at work in the London Investment Office.

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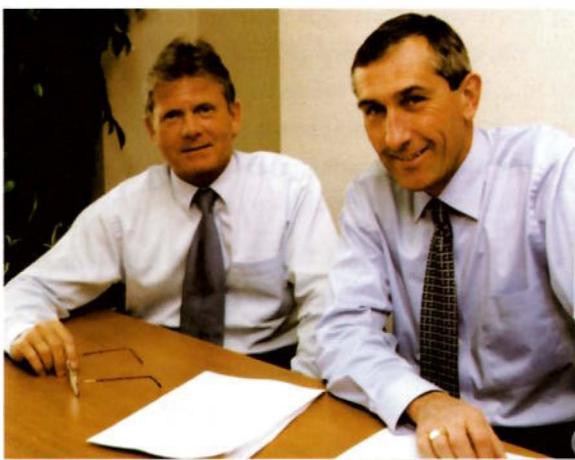
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Raj Thamotheram, Senior Socially Responsible Investment Adviser, at work in the London Investment Office.

The managers in (b) and (c) above each manage their share of USS securities on the basis of a balanced brief.

The year to 31 December 2000 was a poor year for pension fund performance generally with negative returns for the average fund for only the third time in the last twenty years. It was also a poor year for the fund. The fund's performance for the year failed to meet its target, ranking in the 90th percentile of the WM 50. However over the last five years performance is exactly in line with other large funds while over ten years it ranks just outside the top third of funds in its peer group.

Further details of the investment targets, investment performance and amounts managed by each manager are given in the report of the investment committee.

As was reported in previous years, it is a requirement of the Pensions Act 1995 that the trustees of each pension scheme draw up and maintain a statement of investment principles. This statement must lay down the investment objectives of the pension scheme and explain why these objectives are suitable for the particular circumstances of the scheme. The management committee took the view that, for USS, this statement should provide significantly greater information about the management of the scheme's investments than is required under the Act. The full text, which was agreed following consultation with the participating employers, appears on pages 32 to 35 and is unchanged from the statement which was included in the Report & Accounts last year.

The paragraphs on socially responsible investment have been simplified from those which were included in the original statement which was first published in 1997. A more detailed briefing on this issue, which may be amended from time to time, is published on the USS Ltd website.

Corporate governance

The directors of USS Ltd acknowledge their responsibility for ensuring that the company has in place appropriate systems of internal control which are designed to give reasonable assurance that:

- financial information used within the scheme or for publication is reliable and that proper accounting records are maintained;
- assets are safeguarded against unauthorised use or disposition;
- the trustee company and the scheme are being operated efficiently and effectively;
- relevant legislation is complied with.

Any system of internal control, however, can only provide reasonable and not absolute assurance against material misstatement or loss and cannot eliminate business risk.

The management committee of USS, which comprises the board of directors of the trustee company, meets at least four times a year and receives reports on a quarterly basis from its main sub-committees: the finance & general purposes committee, the investment committee, the audit committee, the joint negotiating committee and the advisory committee. It also receives reports as required from the remuneration committee. The functions of the investment committee, the joint negotiating committee and the advisory committee are set out in the reports which follow this report.

The finance & general purposes committee reviews the financial estimates and cash flow forecasts produced annually by the officers and monitors progress each quarter against them. It also receives an annual report on corporate performance which reviews the productivity of the office during the year.

The audit committee reviews the scheme's annual financial statements and accounting policies. It also considers reports from the internal audit manager, the compliance officer, the external auditors and regulatory bodies such as IMRO. The chairman of the committee has regular meetings with the compliance officer. At least once a year the committee meets with the external auditors without the officers being present.

The remuneration committee makes recommendations to the management committee on terms and conditions of employment for all officers and staff of USS Ltd.

Internal audit within the trustee company consists of an internal audit manager and an assistant. It reviews the operation of the internal control systems affecting the trustee company and the scheme and where relevant at external suppliers. Each year the internal audit manager, in conjunction with senior management, carries out a formal evaluation of the risks facing the organisation and the audit programme is tailored in the light of this evaluation. The chief executive's management group considers reports each month from the internal audit manager and reviews the risk management and control process to consider whether any changes to internal controls, or responses to changes in the levels of risk, are required. Any weaknesses identified in these reviews are discussed with management and an action plan is agreed to address them. Through regular reports by the internal audit manager, the audit committee monitors the operation of the internal controls in force and any perceived gaps in the control environment.

Following the publication of the Turnbull Working Party's guidance for directors on internal control, the directors confirm that they have established procedures such that they fully comply with it during the year ended 31 March 2001.

The management committee, through its audit committee, has reviewed the effectiveness of the process for identifying, evaluating and managing the key risks affecting the scheme.

Administration

The service provided to members and institutions continues to be monitored each quarter. Reports showing achievements compared with targets are reviewed by the finance & general purposes committee and are discussed at meetings of the institutions' finance officers' group, a liaison committee which met once during the year.

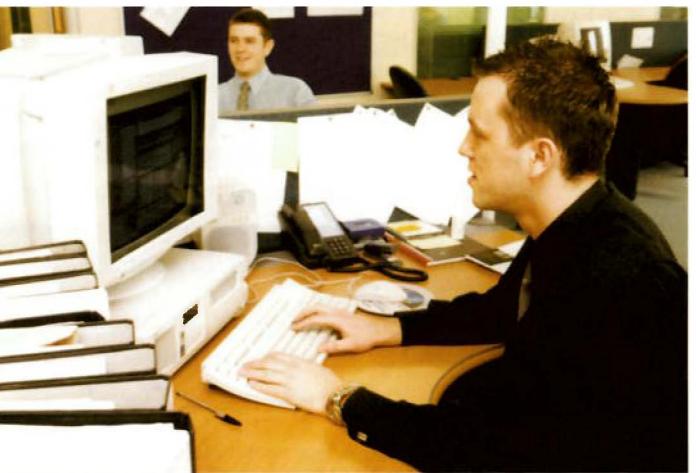
Development and enhancement of the new pensions administration software, the Universal Pensions Management system, has continued since its implementation in August 2000. Increased productivity has been achieved following the implementation although it is still a relatively new product and a number of operational difficulties have been encountered in using it. Work in hand built up during, and subsequent to, the implementation of the system and this, together with an unexpectedly high increase in incoming work, resulted in work in hand reaching a level that had not been anticipated. Action is being taken within the Liverpool office to ensure the return to a satisfactory level of service. We are grateful to member institutions and individual employee members for their support and tolerance.

One administration seminar was held during the year at the Liverpool office and two pension workshops, one at the Liverpool office and one at the University of Bath, as part of the ongoing programme of activities to foster good communication between the trustee company and the members of staff at institutions who are involved with the administration of the scheme. The two institution advisory panels each met once during the year. The advisory panels comprise administrators who regularly deal with USS issues and discuss a wide range of topics providing



Carol Cullen (left) and
Jean Parsons in
the personnel office.

the trustee company with helpful advice and comments about various issues. The meetings were primarily to discuss the pilot exercise for annual benefit statements. The annual meeting with institutions' representatives took place in London in November 2000 and a full report of the proceedings was made available on our website.



Chris Mason,
Systems Development and Support Analyst.

£1.3 million) on the understanding that the company would receive a listing at the time of the placing. The listing did not occur and the transaction therefore breached the fund's internal procedures and the statement of investment principles which require the prior authorisation of the chairman of the investment committee for any investment in an unquoted company.

In April 2000 OPRA introduced a relaxation of the rules regarding the need to report the late payment of contributions. As a result the trustee company made no reports to OPRA of late payment of contributions to the scheme by institutions. The auditor, PricewaterhouseCoopers, however, still has a requirement to report all such instances of late payments to OPRA and reported on three instances of late payments during the year. Each late payment occurred as a result of an administrative problem or oversight and in each case contributions were remitted in full shortly after the due date.

The Pensions Act 1995 required the trustees or managers of an occupational pension scheme to have introduced by 6 April 1997 formal arrangements for the resolution of disputes with members about matters relating to the scheme. USS Ltd arrangements provide for a specified officer of the scheme, (the chief pensions manager) on the application of a complainant, to give a decision on such a dispute and for the trustees or managers, on the application of the complainant following that decision, to review the matter in question and either confirm the decision or give a new decision in its place. The first decision in this process is taken by the chief pensions manager but the advisory committee, augmented for this purpose alone by two members of the management committee (one nominated by UUK and the other by the AUT) should take the second decision. This internal dispute resolution procedure was used 15 times during the year in respect of complaints brought against the trustee company. Six cases were considered during the year by the advisory committee in its enlarged second-stage dispute resolution capacity, and the stage one decision taken by the chief pensions manager was upheld in four cases although in one of these cases it recommended increased compensation. In the two other cases the enlarged advisory committee did not uphold the stage one decision and instead made a recommendation for compensation.

Since the statutory prohibition in April 1988 of compulsory membership of occupational pension schemes as a condition of employment, now contained in Section 160 of the Pension Schemes Act 1993, about one-sixth of employees eligible to join USS have elected not to do so, which means that they will either have a personal pension or be participating in SERPS or with effect from October 2001 have a stakeholder pension. This suggests, as mentioned earlier in the section relating to scheme membership, that a significant number of university employees continue to take decisions about their pension arrangements which may not be in their best interests.

Equitable Life Assurance Society

A small proportion of the fund continues to be held in the form of life assurance policies which were assigned to it in respect of former FSSU members. All the policies are held with the Equitable Life Assurance Society (ELAS). ELAS's problems during the last year have been well publicised. In July 2000, the House of Lords ruled that ELAS could not give a different level of final bonus to those with-profits policy holders who have guaranteed annuity rates (GARs) in their policies. This led to ELAS closing for new business in December 2000 and selling its business (excluding the with-profits policies) to Halifax Group Plc. Profits accruing to existing with-profits policies were restricted during the year and increased "financial adjustments" applied for early surrenders. The ultimate maturity value of with-profits policies is dependent on the ability of ELAS to reach a compromise agreement with holders of the GAR policies to cap the liabilities in respect of these policies which will require the approval of all affected ELAS policyholders in the with-profits fund, including the trustee company, and of the Court.

The policies held by USS Ltd are mainly with-profits policies but do not have guaranteed annuity rates.

On 16 July 2001 ELAS announced a reduction to the value of pension policies of 16% and there has been no growth on policies for the period 1 January 2001 to 30 June 2001. No adjustment has been made to the policy values at 31 March 2001 in the USS accounts.

The management committee is consulting with its advisers in its discussions with ELAS management in seeking to obtain the best outcome for the fund.

USS accrual rate

As has been reported in previous years the management committee set up a working party in 1997 to consider an improvement in the accrual rate and to see if such an improvement would be desirable and feasible. That working party reported to the management committee in May 1998 and it recommended that a move to a sixtieths accrual rate should be made as soon as finances permitted, subject to consideration of any other benefit improvements proposed at the joint negotiating committee.

Such a move was not considered feasible at the time nor at the time of the last actuarial valuation. However the working party was reconvened during the year, with a minor change in membership, to consider a strategy for the possible progression of the accrual rate to sixtieths taking into account the financial and other implications of such a change.

The working party reported to the management committee in March 2001 and while the committee recognised that a number of difficulties exist if USS is to progress to a sixtieths accrual rate, it agreed that a consultation process with employers and members should take place to ascertain the level of support for such a change. This consultation process is due to commence in September this year and is expected to be completed by the end of the year.

Disclosure requirements

The general rights which members and beneficiaries have always had to request information under trust law have been greatly supplemented by statutory disclosure requirements which now apply under the Occupational Pension Schemes (Disclosure of Information) Regulations 1996. Where the requirement is for a document to be available for reference by an interested person, it is met by the provision to each institution from our Liverpool office of a *Disclosure Kit* containing the required documents. Other information, for example *A guide for 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.

The above disclosure regulations require that a number of statements are made in a document which accompanies the audited accounts and actuarial statement and, insofar as they do not appear elsewhere in the *Report and Accounts*, they are given below.

A copy of the statement on pension trust principles issued by the Occupational Pensions Board (the functions of which were assumed by OPRA in April 1997) has been issued to each member of the management committee, as has a copy of the *Guide to Pension Scheme Trustees* issued by OPRA. A copy is held at the trustee company's registered office and is available for inspection by those persons.

Enquiries about the scheme generally or about an individual's entitlement should be sent to the trustee company's registered office.

Transfer values paid during the year were determined in accordance with the Pension Schemes Act 1993 and appropriate regulations. No transfer values paid represented less than their full cash equivalent.

USS has had no employer-related investments during the year other than the contributions received late from institutions which are disclosed in note 19 of the USS accounts. The scheme's assets are invested in accordance with the Occupational Pension Schemes (Investment) Regulations 1996.

The financial statements have been prepared and audited in accordance with regulations made under section 41(1) and 41(6) of the Pensions Act 1995.

Acknowledgements

The management committee again wishes to record its appreciation of the services given by all those who are concerned in the administration and management of USS, including the staff of the trustee company in Liverpool and London and the officers of the institutions which participate in the scheme. It wishes also to thank the various USS consultants and advisers who, by their specialist knowledge and experience, make a valuable contribution to the work of the trustee company.

Signed on behalf of the management committee

Sir Graeme Davies
Chairman

INVESTMENT COMMITTEE

The investment committee advises the trustee company on all matters relating to the investment of the fund's assets.

HIGHLIGHTS OF 2000/2001

- 2000 was a poor year for investment returns generally with the average fund returning -1.1%. This was only the third negative return of the past 20 years, which comes on the back of an extremely strong performance in 1999. The return for USS was -3.6%, behind both average earnings growth of 4.5% and price inflation of 2.9% and also behind the WM50 cum property universe.
- Despite the year 2000 results, the exceptionally positive investment climate is reflected in the longer-term results. The ten year return for the fund stands at 13.8% per annum, ahead of the WM50 average pension fund return of 13.6% and ranking the fund just outside the top third of comparable funds. Over the same ten year period average earnings growth has been 4.6% per annum and retail price inflation 2.9% per annum.
- Including net cash inflow and capital movements the investments of the fund fell to £19.9 billion on 31 March 2001, compared with £21.8 billion a year earlier.
- Work has continued in implementing our policy of socially responsible and sustainable investment and three people are now employed in this area to work within the investment team.
- The statement of investment principles which determines the way in which the investments are managed is set out on pages 32 to 35.

INVESTMENT MANAGEMENT

The fund's investments are divided between those under the direct control of USS Ltd and those managed externally. The internal investment team at the London Investment Office manages the majority of the assets. A separate fund designed to match the performance of

the Financial Times Stock Exchange Actuaries All Share Index (FTSE All-Share Index) is run in-house on advice provided by HSBC James Capel Quantitative Techniques.

The external managers throughout the year to 31 March 2001 were Schroder Investment Management, Baillie Gifford & Co and Capital International. All these managers have a



Janice Robe, Compliance Officer,
based in the London Investment Office.

balanced fund remit. During the year these managers were remunerated on the following bases - Schroder Investment Management and Baillie Gifford through fixed annual fees and Capital International through a performance-related fee.

LaSalle Investment Management administer the properties within the portfolio and advise on their selection. For these services they charge both management and transaction-related fees.

An analysis of the total investments of the fund at 31 March 2001, along with the comparative figures for the preceding year, is set out in the table on page 19. The investments are stated at market value and details of the changes in value are summarised in Note 9 to the USS accounts on page 53.

CORPORATE GOVERNANCE

The committee attaches great importance to the maintenance of good standards of corporate governance, and social and environmental responsibility by companies in which investments are held. Three specialist advisors have been recruited with expertise in corporate governance, environmental, and social issues and are active in monitoring the performance of companies against relevant international or benchmark standards. Through meetings with companies and other activities, we aim to influence managements on these governance and related issues, thereby helping to ensure their good standing with customers and investors. This active engagement approach is time consuming but, in the long term, we believe it will benefit the fund. The London Investment Office also seeks to ensure that USS Ltd's voting rights are exercised on every occasion as regards UK companies. We have also begun developing the mechanisms whereby these additional resources can best be utilised and made accessible to fund managers so that they can make informed decisions on these aspects of the investment process.

TOTAL INVESTMENTS OF THE FUND

Type of Investment	Fixed Interest £m	Index-Linked £m	Equities £m	Properties £m	Cash and Equivalent £m	31 March 2001 Total £m	31 March 2001 Total %	31 March 2000 Total £m	31 March 2000 Total %
Investments under the direct control of USS Ltd									
Borrowed securities									
UK	—	21.3	3,916.9	—	—	3,938.2	19.8	4,588.7	21.0
Overseas	712.1	—	3,115.0	—	—	3,827.1	19.3	4,499.4	20.6
Property	—	—	—	1,592.1	—	1,592.1	8.0	1,516.2	7.0
UK	—	—	—	—	261.3	261.3	1.3	70.9	0.3
Overseas	—	—	—	—	205.3	205.3	1.0	226.0	1.0
Sub-total	712.1	21.3	7,031.9	1,592.1	466.6	9,824.0	49.4	10,901.2	49.9
Investments managed internally on the basis of external advice									
Index fund									
UK	—	—	5,059.2	—	0.6	5,059.8	25.5	5,623.7	25.7
Overseas	—	—	—	—	—	—	—	—	—
Sub-total	—	—	5,059.2	—	0.6	5,059.8	25.5	5,623.7	25.7
Investments managed externally									
Willie Gifford									
UK	168.7	73.1	764.3	—	59.7	1,065.8	5.3	1,124.4	5.1
Overseas	81.7	—	395.8	—	17.8	495.3	2.5	583.4	2.7
Capital International	—	—	—	—	—	—	—	—	—
UK	152.5	92.3	805.8	—	53.5	1,104.1	5.6	1,151.2	5.3
Overseas	74.2	—	487.4	—	(21.0)	540.6	2.7	545.3	2.5
Broker	—	—	—	—	—	—	—	—	—
UK	174.8	94.4	801.7	—	43.9	1,114.8	5.6	1,136.6	5.2
Overseas	99.0	—	361.5	—	(0.6)	459.9	2.3	527.7	2.4
Life assurance policies	—	—	—	—	—	—	—	—	—
UK	69.8	2.0	81.0	21.5	9.5	183.8	0.9	213.0	1.0
Overseas	—	—	28.3	—	—	28.3	0.2	37.0	0.2
Sub-total	820.7	261.8	3,725.8	21.5	162.8	4,992.6	25.1	5,318.6	24.4
Total investments									
UK	565.8	283.1	11,428.9	1,613.6	428.5	14,319.9	72.0	15,424.7	70.6
Overseas	967.0	—	4,388.0	—	201.5	5,556.5	28.0	6,418.8	29.4
Total	1,532.8	283.1	15,816.9	1,613.6	630.0	19,876.4	100.0	21,843.5	100.0
Percentage at 31 March 2001									
UK	2.8	1.4	57.5	8.1	2.2	—	72.0	—	—
Overseas	4.9	—	22.1	—	1.0	—	28.0	—	—
Total percentage	7.7	1.4	79.6	8.1	3.2	—	100.0	—	—
Total percentage at 31 March 2000									
UK	6.5	1.1	83.5	7.0	1.9	—	—	—	—
Total percentage at 31 March 2000	100.0	—	—	—	—	—	—	—	—

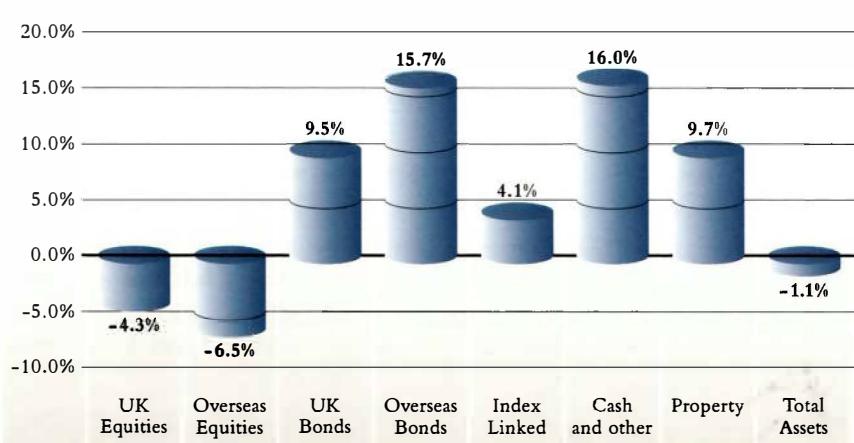
WM50 PENSION FUND SURVEY FOR 2000

The fund participates in the above survey of pension fund performance. In 2000 the survey covered the largest 50 funds with a combined value of £297 billion and a minimum size of over £2 billion. These funds represent nearly 60% of assets in the WM All Funds Universe.

Average pension fund results for 2000

Investment returns reported in the 2000 survey showed that the average WM 50 pension fund performed poorly with equities falling in value but property and bonds doing well.

Total investment returns for 2000 in sterling (WM50 Pension Fund Survey)



USS RESULTS

The previous section showed the results of the average pension fund in the WM50. This section analyses the performance of USS itself.

The fund adopted the following performance target from 1 January 1999:

To exceed the 40th percentile of the WM 50 cum property universe over a rolling five-year period.

This target, coupled with the target given to the individual balanced managers (to exceed the 40th percentile of the WM50 ex property universe over a rolling five year period) and the tilt given by the indexed portion of the fund, should give a consistent tilt towards UK equities and therefore the total equity content of the fund. This may result in the performances of the fund differing significantly year by year from the average fund performance in the WM Survey but the committee believes that, over the longer term, equities are likely to provide the best return from available asset classes.

Longer term results

Over the ten years to 31 December 2000, the total fund returned 13.8% per annum against the average for all funds in the WM50 Universe survey of 13.6%. These figures compare with the average earnings increases of 4.6% per annum and retail price index growth of 2.9% per annum. Over this period therefore the fund's real return comfortably exceeded the assumptions used in the actuarial valuation of the scheme.

The fund was just outside the top third of funds in the survey.

Performance over the five years to 31 December 2000

Taking the five years 1996 to 2000 together, the following annualised returns were achieved:

	Annualised Return %	WM50 Survey ex Property Percentile
London Investment Office	13.4	11
Baillie Gifford	12.5	30
Schroder Investment Management	11.8	72

(Capital International only became a manager of USS funds in 1998)

Over the five-year period the total fund including property returned 12.2% in line with average fund performance ranking it just above the median fund in the survey.

Performance in 2000

The total returns achieved for USS by the external balanced managers and the London Investment Office, are shown below:

	Annualised Return %	WM50 Survey ex Property Percentile
Capital International	1.2	20
Schroder Investment Management	0.8	22
Baillie Gifford	(4.1)	90
London Investment Office	(6.0)	98

Excluding property, the average fund in the WM 50 Universe returned -1.8%.

The total fund including property returned -3.6% against the WM50 average fund performance of -1.1%, ranking it in the 90th percentile.

INVESTMENT REPORT

The world economy slowed in the year 2000 as US economic growth fell back from the extremely high level seen in 1999. However there have been fears that the economic slowdown might develop into a slump. Monetary policy was eased significantly in many economies with the major exception being Europe, where the ECB maintained a steady interest rate.

Despite the rapid price rise in some commodities, commodity inflation has not been a problem during the year to the end of March 2001. It has tended to push up producer prices somewhat but this has not, as yet, been reflected in consumer price indices. However, there has been some modest acceleration in the rate of producer price inflation and thus there are straws in the wind that consumer price inflation might move up. We are monitoring this trend extremely closely as a rising inflationary environment, coupled with slowing economic growth, could bring about further substantial falls in securities markets.

The volatility of sectors within the markets has been extreme and this has been a reflection of their underlying corporate performances. Technology and telecom stocks have suffered significantly as the excesses of the previous year's growth and optimism have caused financial difficulties leading to the lowering of expectations of these companies' long term growth rates.

The portfolio adopted a more conservative stance as the year progressed. However, it still suffered relatively and this was reflected in the reduced value of the fund. Even the decision taken in 1999 to overweight property provided little protection. We are convinced, however,

that property at its current yield levels will provide an attractive return for the fund and possibly a higher one than both bonds and equity markets over 2001. We also expect governments to continue with policies which are supportive to equities with looser fiscal policy and an accommodating interest rate structure. However until corporate profitability is seen to be improving and leading indicators turn positive markets are likely to remain subdued.

There are as yet no signs of any such recovery and thus we have allowed liquidity within the fund to rise. Cash is an inappropriate asset class for the fund over the long term and we would expect to reduce the liquidity level within the fund as 2001 progresses. So although the majority of 2000 was a difficult period for the fund, and 2001 so far has also proved disappointing, the longer-term outlook appears to be reasonably encouraging.

The performance of the major markets for the year to 31 March 2001 is shown below:

Equity and fixed interest market total returns for the year to 31 March 2001

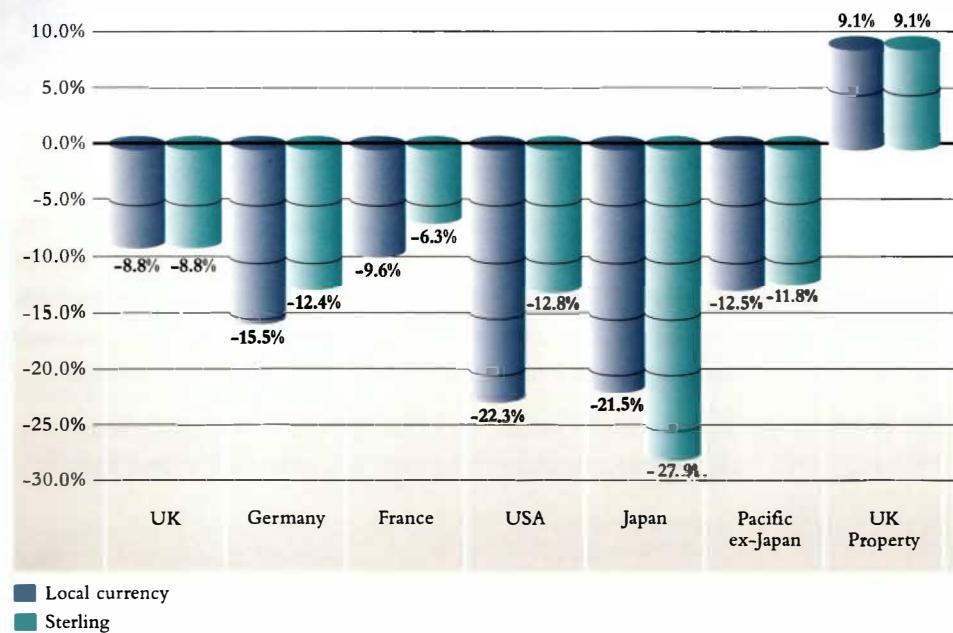
	Equities		Fixed Interest	
	Local Currency %	Sterling %	Local Currency %	Sterling %
UK	(8.8)	(8.8)	7.5	7.5
Germany	(15.5)	(12.4)	7.3	11.3
France	(9.6)	(6.3)	7.3	11.2
USA	(22.3)	(12.8)	12.1	25.8
Japan	(21.5)	(27.9)	5.4	(3.2)
Pacific ex-Japan	(12.5)	(11.8)	—	—
UK Property	9.1	9.1	—	—

Source:

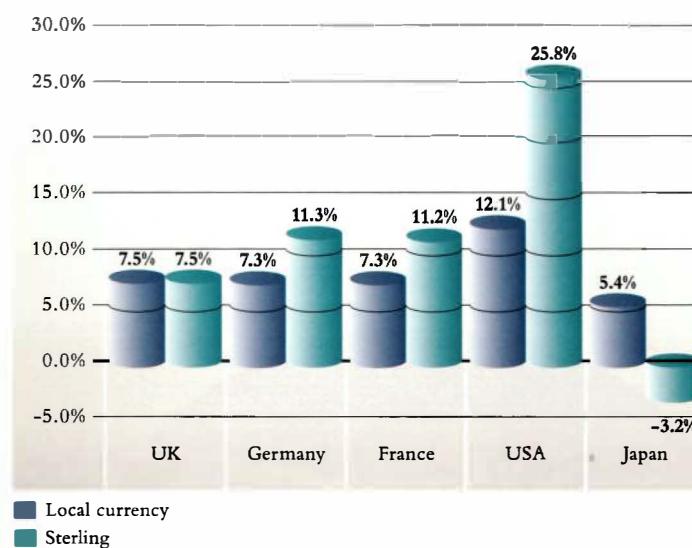
FT Actuaries World Indices
J P Morgan Government Bond Indices
Investment Property Databank

Equity and fixed interest market total returns for the year to 31 March 2001

Equities



Fixed Interest



PROPERTY

The fund's property investment performance target is to exceed the weighted average return of a customised Investment Property Databank (IPD) universe of the 100 largest comparable funds by 0.5% pa over rolling five-year periods. This customised universe produced a return of 11.1% in 2000 giving a benchmark return for 2000 of 11.6% while the IPD All Fund Universe produced a return of 11.5%. Returns were lower than the previous year's benchmark return of 15.1% chiefly because of higher yields in the retail and office sectors, which offset improved rental growth.

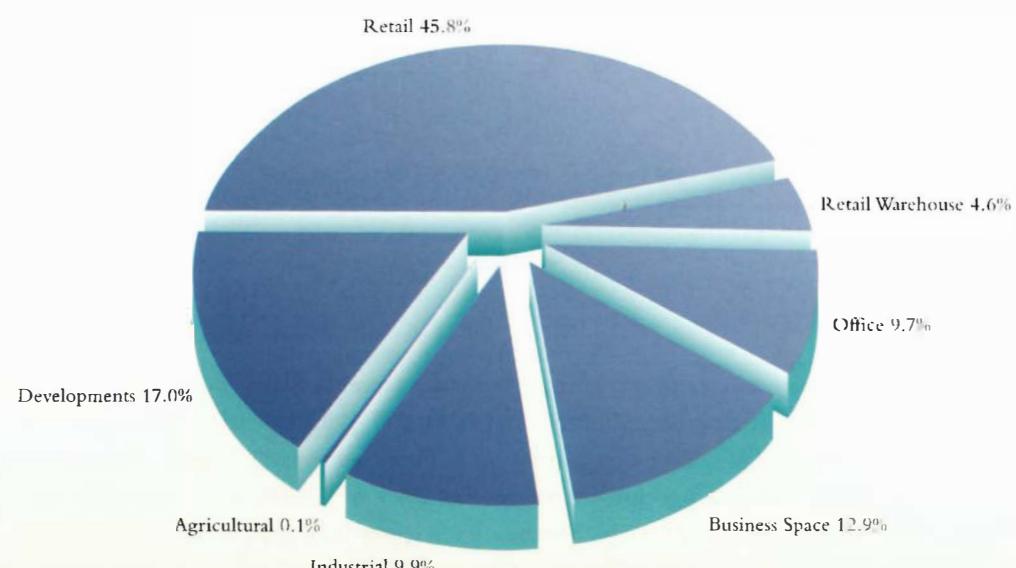
Despite relatively high yields, property investment has remained out of favour with the market as a whole and pension funds in particular. As equity markets have fallen, so property weightings have increased to reduce the funds' appetite for the sector. Retail property significantly underperformed the office and industrial sectors last year as the difficult operating conditions for retailers continued but the sector still produced rental growth in excess of inflation. Property has returned in excess of 13% pa annualised over the past five years and with very limited speculative new development underway and given the prevailing relatively high yields, we expect property to contribute good levels of return for the foreseeable future.

The USS property portfolio underperformed its benchmark in 2000 by 0.8% mainly due to weak performance from its large retail investments most notably at Telford Shopping Centre, Argyll Street Glasgow, Forestside Shopping Centre in Belfast and the site assembly in central Leeds. Over five years, the fund's return of 13% pa is below the benchmark return of 13.3% pa but the fund has outperformed its benchmark by 1.2% pa over the past ten years.

The portfolio was independently valued by Colliers Conrad Ritblat Erdman as at 31 March 2001 at £1,592.1 million and a breakdown by type and location is shown below:

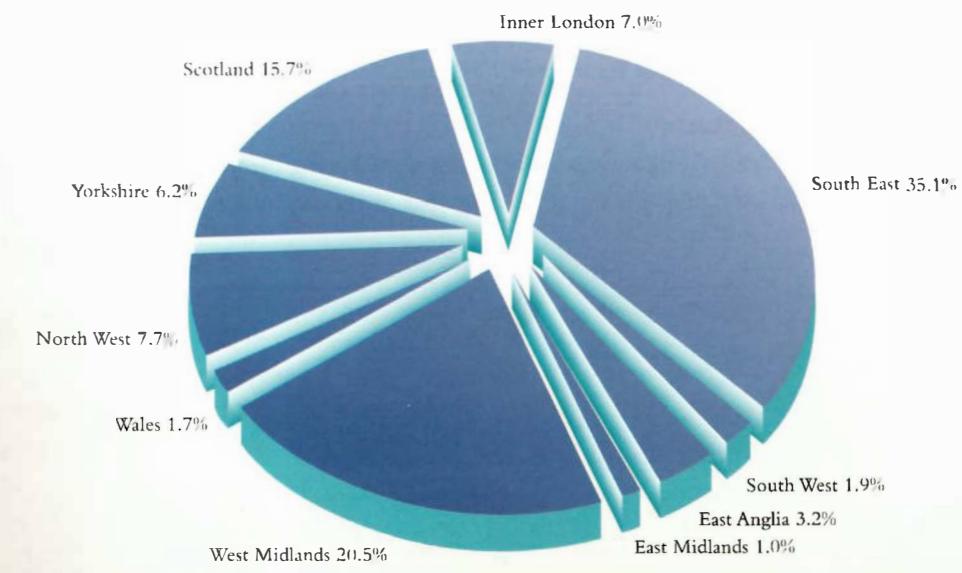
USS property portfolio - type of investment

	Freehold £m	Leasehold £m	Total £m	%
Retail	707.5	22.2	729.7	45.8
Retail Warehouse	72.6	—	72.6	4.6
Office	118.6	35.2	153.8	9.7
Business space	199.2	7.0	206.2	12.9
Industrial	130.1	27.9	158.0	9.9
Agricultural	1.2	—	1.2	0.1
Developments	261.6	9.0	270.6	17.0
TOTAL	1,490.8	101.3	1,592.1	100.0



USS property portfolio - geographical location

	£m	%
Inner London	111.4	7.0
South East	558.4	35.1
South West	30.6	1.9
East Anglia	51.6	3.2
East Midlands	15.5	1.0
West Midlands	327.2	20.5
Wales	26.5	1.7
North West	121.9	7.7
Yorkshire	99.2	6.2
Scotland	249.8	15.7
TOTAL	1,592.1	100.0



Net income for the year to 31 March 2001 rose from £62.7 million in the previous year to £75.2 million, mainly as a result of new acquisitions and the acquisition of the Gyle Shopping Centre, Edinburgh towards the end of the previous year.

NEW INVESTMENT

The fund committed some £50 million of new investment during the year but in relatively small lot sizes. The fund did however agree to forward fund three separate industrial developments at Milton Keynes and a fourth at Dartford with a combined value of £19 million, which are being developed by Frontier Estates. A major interest was acquired for £10.5 million at the retail and leisure park at Bromborough, Wirral as part of a strategy to improve and extend the existing retail space. Two C&A stores were acquired: at Telford which has since been subdivided for lettings to Gap and Next and at Leeds as part of the central area site assembly. The Midsummer Place shopping centre development at Milton Keynes was

completed successfully during the year and only 4 of its 50 units remain unlet. Good progress also continued at the Whiteley Village factory outlet centre in Hampshire where only 9 of the 50 units remain unlet and with good tenant interest being shown in the remainder. The fund obtained planning consent for its Grand Arcade development in central Cambridge, without the need for a public inquiry and as part of this scheme, acquired a large site to the west of the city for a new park and ride facility, to be operated by the local authority. Similarly in central Leeds, the proposed central area redevelopment was warmly supported by the City Council and also received planning consent without the need for a public inquiry. However, construction of this scheme has been put on hold pending discussions with adjoining owners and a review of various options.

DISPOSALS

During the year the fund disposed of Forestside Shopping Centre, Belfast for £70 million. Although this was below valuation and detracted 0.48% from the fund's total performance for the year, it still represented an excellent total return of 16% pa for the fund during its 3 years of ownership. The fund also sold the Wellington Shopping Centre at Aldershot for £18.2 million as part of its strategy to reduce its retail weighting and this strategy will continue as market conditions allow. A retail property in Sheffield and an office building in Edinburgh were exchanged for the C&A store in Leeds at an agreed consideration of £7.4 million and a small shop in Dundee was sold for £1.6m.

NET NEW INVESTMENT

An analysis of the net new investment undertaken during the year to 31 March 2001, along with the comparative figures for the preceding year, is set out in the table below:

	2001		2000	
	£m	%	£m	%
Securities	409.0	68.7	483.7	80.8
Property	36.4	6.1	280.7	46.9
Life assurance policies	(44.9)	(7.5)	(52.4)	(8.7)
Cash deposits	176.5	29.7	(46.5)	(7.7)
Stockbroker balances	17.8	3.0	(67.5)	(11.3)
	594.8	100.0	598.0	100.0

An analysis of the net new investment in securities for the year to 31 March 2001, along with comparative figures for the preceding year, is set out in the table below:

	2001		2000	
	£m	%	£m	%
UK Equities	97.9	23.9	324.7	67.1
Overseas Equities	299.4	73.2	178.5	36.9
Index-linked	52.9	12.9	21.2	4.4
UK Fixed Interest	61.2	15.0	(249.9)	(51.7)
Overseas Fixed Interest	(102.4)	(25.0)	209.2	43.3
	409.0	100.0	483.7	100.0

INVESTMENT IN LIFE ASSURANCE POLICIES

A small proportion of the fund continues to be held in the form of life assurance policies which were assigned to it in respect of former FSSU members. All the policies are held with the Equitable Life Assurance Society (ELAS). The distribution of the assets deemed attributable to USS policies as at 31 March 2001, along with the comparative figures for the preceding year, is set out below:

	2001		2000	
	£m	%	£m	%
UK Equities	81.0	38.2	121.9	48.8
Overseas Equities	28.3	13.3	37.0	14.8
Index-linked	2.0	1.0	2.0	0.8
Fixed Interest	69.8	32.9	62.6	25.0
Property	21.5	10.1	20.2	8.1
Cash	9.5	4.5	6.3	2.5
	212.1	100.0	250.0	100.0

Further comment on the life assurance policies held with ELAS is included in the report of the management committee.

DISTRIBUTION OF ASSETS

The portfolio distribution as at 31 March 2001, along with the comparative figures for the preceding year, is set out below:

	2001			2000		
	£m	£m	%	£m	£m	%
UK fixed interest						
British Government						
Conventional	354.5			332.7		
Index-linked	281.1			232.3		
Other debentures & loan stocks	141.5			102.8		
	777.1	4.0		667.8	3.1	
Overseas fixed interest						
North America	496.6			487.3		
Europe	65.2			96.2		
Japan	227.0			227.5		
Pacific	98.2			105.8		
International	80.0			—		
	967.0	4.9		916.8	4.2	
Total fixed interest	1,744.1	8.9		1,584.6	7.3	
UK equities						
Resources	1,722.0			1,407.4		
Basic industries	307.7			397.7		
General industries	280.5			398.7		
Cyclical consumer goods	60.4			78.7		
Non cyclical consumer goods	2,064.6			1,757.3		
Cyclical services	1,780.5			1,906.5		
Non cyclical services	1,493.1			3,000.3		
Utilities	420.3			458.8		
Information technology	346.6			764.8		
Financials	2,773.2			2,548.3		
Collective investment schemes	81.9			112.7		
Investment funds	13.2			24.6		
Derivatives	3.9			—		
	11,347.9	57.7		12,855.8	59.5	
Overseas equities						
America	1,142.4			1,160.6		
Japan	597.0			973.6		
Europe	1,751.8			2,110.0		
Pacific	719.1			840.0		
Other	149.4			139.4		
	4,359.7	22.2		5,223.6	24.2	
Total equities	15,707.6	79.9		18,079.4	83.7	
Total securities	17,451.7	88.8	19,664.0	91.1		
Property	1,592.1	8.1	1,516.2	7.0		
Cash deposits	643.8	3.2	454.4	2.1		
Stockbroker balances	(23.3)	(0.1)	(41.1)	(0.2)		
Total investments (excluding life assurance policies)	19,664.3	100.0	21,593.5	100.0		

LARGEST EQUITY HOLDINGS

A list of the fund's largest twenty equity holdings as at 31 March 2001, together with the percentage of the total fund (excluding life assurance policies), is shown below:

		Value £m	%
1	Vodafone Group	981.8	5.0
2	BP Amoco	878.4	4.5
3	Glaxosmithkline	789.8	4.0
4	HSBC Holdings	507.9	2.6
5	Astrazeneca	442.8	2.3
6	Shell Trans & Trading Reg	437.5	2.2
7	Royal Bank of Scotland Group	316.4	1.6
8	Lloyds TSB Group	314.1	1.6
9	Barclays	269.4	1.4
10	Diageo	190.2	1.0
11	British Telecom	188.6	1.0
12	Prudential	144.2	0.7
13	Tesco	138.2	0.7
14	CGNU	131.2	0.7
15	Compass Group	112.2	0.6
16	Reuters Group	108.1	0.5
17	Abbey National	105.3	0.5
18	Anglo American	103.3	0.5
19	Halifax Group	101.2	0.5
20	Bank of Scotland	97.6	0.5
		6,358.2	32.4

A list of all the fund's holdings is available on our website www.usshq.co.uk

Signed on behalf of the investment committee

Mark Fitzalan Howard
Chairman

JOINT NEGOTIATING COMMITTEE

The functions of the joint negotiating committee are to approve amendments to the rules proposed by the trustee company, to initiate or consider alterations to the rules and to consider any alterations proposed by the advisory committee arising out of the operation of the rules. The joint negotiating committee also has powers under the Articles of Association of the trustee company and under the scheme rules in connection with the appointment of co-opted directors and with the remuneration of directors.

With effect from 1 January 2001 Dr A Bruce replaced Mr D Anderson-Evans as a Universities UK nominee. Mr Anderson-Evans had been involved with USS for over 25 years, a period that pre-dated its inception, and suitable tributes were made on the occasion of his final committee meeting to the influence and commitment he had given to USS Ltd over that period. Prior to 31 March 2001 Mr Lillis had resigned from the committee to take up an appointment in Australia and the committee also wished to acknowledge the service that he had given.

The committee met on five occasions during the year and rule changes were considered by the committee which resulted in five amending deeds being executed, from the twentieth to the twenty-fourth deeds of amendment. The most significant changes which these deeds introduced were:

- The twentieth deed of amendment gave effect to the benefit improvements that were approved following the 1999 triennial actuarial valuation. These improvements were:
 - an extra 1% increase on the pension baseline for 1999/2000 awarded to pensioners and deferred pensioners at the end of that year;
 - discontinuance of the reduction in pension to which surviving spouses or adult dependants of members have previously been subject, if substantially younger than the member; and
 - an increase of lump sum death in service benefit from 2½ to 3 times salary.
- The twenty-first deed of amendment covered changes required under the Employment Relations Act 1999 and relevant regulations (principally the Maternity and Parental Leave Regulations 1999).
- The twenty-second deed of amendment introduced a power to augment members' benefits to facilitate the settlement of any proven maladministration claims and tidied up certain options relating to transfers into USS from free-standing AVCs and personal pensions.
- The twenty-third deed of amendment extended eligibility for membership of USS to those employees in irregular or non-standard employment. This brought to a conclusion a prolonged exercise addressing these employees' particular circumstances and facilitated compliance for our participating institutions with the stakeholder legislation introduced on 6 April 2001 and part-time worker regulations introduced on 1 July 2000.
- The twenty-fourth deed of amendment complied with the new legislation in relation to pension sharing/splitting on divorce that was introduced on 1 December 2000.

Signed on behalf of the joint negotiating committee

Sir Kenneth Berrill
Chairman

ADVISORY COMMITTEE

The functions of the advisory committee are to advise the trustee company on the exercise of its powers and discretions (other than those relating to investment matters), on difficulties in the implementation or application of the rules and on any complaints received from members or participating institutions, and any other matters on which the trustee company requires advice.

Four meetings were held during the year. With effect from the meeting on 30 January 2001, Ms J McAdoo replaced Mr A D Linfoot as chairperson and Dr A Bruce replaced Mr D Anderson-Evans on the committee. Mr R Brown was appointed at the meeting on 6 July 2000 to replace Dr Green who sadly died in September 2000.

The majority of questions raised on the application or interpretation of the rules of USS were dealt with by the senior officers. The remainder, in which the circumstances did not fall clearly within the trustee company's guidelines and which required detailed consideration by the advisory committee during the year comprised:

- two cases relating to the continuation of a child's pension as a result of resuming studies after a prolonged break;
- one case relating to an application for ill-health retirement;
- one case relating to the cancellation of a pension allocation by the member to his spouse; and
- one case relating to the terms applicable to an over age entrant.

It was necessary for the committee, enlarged in accordance with rule 20.4(b) and (c), to meet on three occasions during the year to consider the decisions given by the chief pensions manager at stage one of the internal dispute resolution procedure. These second stage considerations:

- (a) upheld the stage 1 decision in three cases;
- (b) resulted in a recommendation being accepted by the management committee to grant an award in two cases and increase an award in a third case; and
- (c) did not consider a seventh case that was withdrawn before the committee meeting.

Signed on behalf of the advisory committee

Ms J McAdoo
Chairperson

STATEMENT OF INVESTMENT PRINCIPLES

Introduction

The Pensions Act 1995 requires trustees to prepare and keep up-to-date a written statement recording the investment policy of the scheme. The purpose of this document is not only to satisfy the requirements of the Act but also to outline the broad investment principles governing the investment policy of the scheme.

The statement has been agreed by the management committee of Universities Superannuation Scheme (USS) on written advice from the investment committee, a sub-committee of the management committee, and the scheme actuary following consultation with the participating employers or their appointed representatives.

The management committee reviews the statement at least every three years in the light of each triennial actuarial valuation. The investment committee monitors compliance with this statement at least annually and obtains confirmation from the investment managers that they have exercised their powers of investment with a view to giving effect to the principles contained herein as far as reasonably practicable.

The investment committee of the management committee is established under the articles of association of the trustee company, Universities Superannuation Scheme Limited (USS Ltd), and under the rules of the scheme to advise the trustee company on all questions relating to the investment of the assets of the fund. It consists of between three and eight people of whom at least one must be a member of the management committee and not more than five shall be persons other than directors whom the management committee may decide to appoint because they have special skills or are able to give competent advice to the trustee company on the policy to be adopted from time to time for investment of the fund.

The management committee, as the governing body of the trustee company, retains the overall power of investment in relation to the fund but may from time to time delegate to the investment committee on such terms as it may impose the power of the trustee company to decide the investment policy of the fund. The investment committee is required to notify to the management committee its decisions concerning the investment policy of the fund. Any changes in the investment policy will be notified to the management committee on a quarterly basis.

Investment objective

The trustee's duty is to act in the best financial interests of all classes of scheme member and accordingly to ensure that the assets are invested to secure the benefits under the scheme. The managers are therefore instructed to give primary consideration to the financial prospects of any investment they hold or consider holding.

The fund's investment objective is to meet its investment performance target. This objective is consistent with the scheme's relative immaturity and with funding the scheme's benefits at the lowest cost over the long term, having regard to the minimum funding requirement of the Pensions Act 1995 and having regard to the attitude of Universities UK (formerly the Committee of Vice-Chancellors and Principals) and of the management committee towards the risk of higher contributions at some time in the future. At the last triennial valuation as at 31 March 1999 the scheme's funding level exceeded its minimum funding requirement level. The aim is to seek to maintain an adequate funding cushion so that the risk of deterioration of the MF R ratio to below 100% is at an acceptable level.

The investment performance target for the total fund is to exceed the 40th percentile of the WM50 (the largest pension funds in the WM universe) cum property universe over rolling five-year periods.

The investment performance target for direct property investments is to exceed the weighted average return of a customised Investment Property Databank (IPD) universe of the largest 100 comparable property funds by 0.5% pa over rolling five-year periods.

Investment manager structure

The securities investments of the fund are currently managed by a number of discretionary balanced managers and one index tracking manager. The reason for using a number of different managers is to spread the investment risk of the scheme. The management structure is subject to review by the investment committee and the management committee.

The investment performance target for each of the balanced managers is to exceed the 40th percentile of the WM50 ex property universe over rolling five-year periods.

The objective of the index tracking fund is to match the return on the FT-SE-A All-Share Index. This fund is managed by the internal manager acting on the advice of HSBC James Capel Quantitative Techniques.

At 31 March 2000 the securities assets of the fund were allocated between the managers in an approximate ratio of:

	%
Internally managed balanced fund	47
Index tracking fund	28
Externally managed balanced funds	25

This ratio will fluctuate due to stock market movements and cash allocation.

Cash flow is normally allocated between the managers as follows:

- (a) 25% to the index tracking manager;
- (b) 20% to the external managers, and
- (c) 55% to the internal manager in respect of both securities and direct investment in property.

The allocation of cash is reviewed and approved by the investment committee on a quarterly basis.

Investment strategy and asset mix

Investment policy is determined by the belief that over the longer term equity investment will provide superior returns to other investment classes. The management structure and targets set are designed to create a bias so that the USS fund has a greater than average weighting in UK equities compared to its peer group. This is achieved by retaining the FT-SE-A All-Share Index tracking fund as a discrete fund and by the targets which have been set for the balanced managers. Thus, the fund has a relatively high exposure to equities through a geographically and industrially diversified portfolio.

The investment committee sets guidelines for asset allocation for the combined fund within which the investment managers, taken as a whole, are required to operate. These guidelines are reviewed quarterly by the investment committee. The guidelines set for asset allocation between different investment classes are consistent with the investment committee's views on the appropriate balance between risk and return and have due regard to the long term liabilities of the scheme.

The balanced investment managers are aware of their investment objective and set their individual investment strategy to meet that objective within the overall fund guidelines imposed. The monitoring guideline at 31 March 2000 was:

	%
UK equities	60
Overseas equities	24
Index linked gilts	1
Bonds	6
Property	7
Cash	2

If there are significant departures from the asset distribution recommended each quarter by the investment committee, the investment specialists on the investment committee will be notified. In this way market movements and asset allocation shifts are monitored and any desired changes are approved by the chairman of the investment committee after consultation with the investment specialists.

The total investment in each broad asset class is determined by the fund's investment managers under their delegated authorities within the above monitoring guidelines set by the investment committee after consideration of the minimum funding requirements of the Pensions Act 1995, long term funding solvency and investment management risk. No more than 4% of the total fund by market value can be invested in one company except for very large UK companies in which managers are allowed a maximum overweight position of 50% of the FT-SE-A All-Share Index weighting with an overall cap of 10% of their part of the fund. No more than 10% of the market capitalisation of any one company (excluding collective investment schemes and companies established by the trustee company to aid the efficient administration of fund investments subject to appropriate controls) may be held without prior authority from the chairman of the investment committee. In both cases, the constraints apply as at the date of purchase.

Managers may not, as a rule, invest in securities not quoted on a recognised or designated investment exchange. Investment in unquoted securities requires the approval of the chairman of the investment committee.

Additional assets

The fund continues to hold life assurance policies with the Equitable Life Assurance Society (ELAS) assigned to it in respect of former FSSU members. The value of policies held as at 31 December 1999 was less than 1.5% of the fund. It is the intention of the trustee to convert these policies to a managed fund and ultimately to bring the assets under the investment control of the discretionary balanced managers within a timescale agreed by ELAS.

Additional voluntary contributions from members to purchase additional benefits on a money purchase basis are invested separately and managed and administered externally. The appointment of AVC providers is subject to review by the management committee.

Monitoring performance

The performance of the fund and of each investment manager is measured quarterly by the WM Company against the relevant targets. The performance of the investment managers and the fund is reported quarterly to the investment committee.

The performance of the property portfolio is also separately measured against the customised

IPD universe. The IPD performance data is incorporated within the WM50 data for measurement of the performance of the whole fund.

The internal auditor and chief investment officer visit the external investment managers to check the quality and effectiveness of procedures on a regular basis. The internal auditor monitors the internal manager to check the quality and effectiveness of procedures on a regular basis.

Level of scheme maturity

An exercise carried out in conjunction with the actuary in 1995 confirmed the trustee's view of the scheme's relative immaturity and this is kept under review by the trustee company.

The scheme is cash flow positive and does not need to realise investments to meet liabilities.

Stock lending

The trustee company is authorised by the scheme rules to participate in stock lending and has done so since 1998. It has concluded that the risks associated with stock lending in accordance with those lending programmes in which it participates, which incorporate a high level of risk mitigation, are not intrinsically different from those of other market operations and are justified in the light of the return to the scheme in terms of the annual stock lending fees capable of generation.

Any stock lending programme in which the fund participates must provide for all loans to be fully pre-collateralized and be approved by the investment committee on legal advice.

Corporate governance

The proper corporate governance of companies in which the fund invests is of importance to USS Ltd. The trustee has adopted the recommendations set out in the Combined Code appended to the London Stock Exchange Listing Rules. Votes are cast where appropriate on the basis of these recommendations on resolutions at the general meetings of all UK companies and where appropriate at the general meetings of all overseas companies in which the fund has investments.

Socially responsible investment

The trustee company pays regard to social, ethical and environmental considerations in the selection, retention and realisation of fund investments to the extent that it is consistent with its legal duties to do so. To this end, having consulted with the participating employers, it has adopted a policy of active engagement with those companies in which the fund is invested concerning the ethical, environmental and social policies pursued by those companies. The trustee company will accordingly aim to use its influence as a major institutional investor to promote within those companies those policies which will meet best practice in those areas. The trustee company pursues this policy with a view to protecting and enhancing the value of the fund's investments in those companies.

Further information on the company's stance on socially responsible investment is published from time to time.

Derivatives

Each of the discretionary balanced managers is permitted to use derivatives within limitations specified by the investment committee. The current limit is 5% of funds under their management and the use of derivatives is to be solely for the efficient management of the portfolio.

Underwriting

The balanced managers are permitted to underwrite issues provided they are prepared to hold all the stock which they underwrite.

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS		MEMBERS	PENSIONERS	
No.	Name		Pensioner Members	Spouses, Dependants and Dependent Children
0100	Aberdeen	1,458	456	171
4100	Aston	471	321	98
4300	Bath	980	314	49
6600	Belfast	1,704	478	113
1000	Birmingham	2,288	888	177
4200	Bradford	804	360	82
1100	Bristol	2,191	563	117
4400	Brunel	632	267	52
7035	Buckingham	85	33	5
1200	Cambridge (University)	4,054	808	249
1202	Christ's	13	4	3
1204	Churchill	33	7	1
1206	Clare	11	4	—
1208	Clare Hall	6	—	1
1210	Corpus Christi	16	5	2
1212	Darwin	4	3	1
1214	Downing	19	10	2
1216	Emmanuel	18	3	2
1218	Fitzwilliam	11	4	2
1220	Girton	31	9	2
1222	Gonville & Caius	34	8	4
1224	Hughes Hall	—	2	1
1226	Jesus	20	5	1
1228	King's	27	7	1
1230	Lucy Cavendish	20	5	—
1232	Magdalene	18	2	2
1234	New Hall	22	9	—
1236	Newnham	26	17	3
1238	Pembroke	23	4	2

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued		MEMBERS	PENSIONERS	
No.	Name		Pensioner Members	Spouses, Dependants and Dependent Children
1240	Peterhouse	17	3	—
1242	Queens'	18	2	1
1245	Robinson	16	5	—
1246	St Catharine's	20	3	—
1255	St Edmund's	3	1	—
1250	St John's	37	5	5
1252	Selwyn	14	1	—
1254	Sidney Sussex	11	—	1
1258	Trinity	42	9	2
1260	Trinity Hall	16	3	2
1268	Wolfson	9	2	1
4700	City	754	280	77
7016	Cranfield	919	358	80
0700	Dundee	1,370	303	66
1300	Durham (University)	1,315	354	60
1301	St Chad's	1	—	—
1302	St John's	2	—	—
1500	East Anglia	1,032	288	47
0200	Edinburgh	2,994	788	205
1700	Essex	690	151	41
1600	Exeter	899	396	72
0300	Glasgow	2,640	727	143
0800	Heriot-Watt	826	196	34
1800	Hull	892	362	87
3100	Keele	556	209	43
1900	Kent at Canterbury	738	282	37
2100	Lancaster	929	313	59
2000	Leeds	2,800	855	206
2200	Leicester	1,297	304	64

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued

No.	Name		MEMBERS		PENSIONERS	
					Pensioner Members	Spouses, Dependants and Dependent Children
2300	Liverpool		1,917		576	144
2497	London (University)		496		566	162
2408	Birkbeck		479		125	27
2401	Goldsmiths' College		437		103	6
2480	Heythrop		14		1	—
2409	Imperial Coll of Science, Technology & Medicine	2,943		802	194	
2440	Institute of Cancer Research		203		13	1
2465	Institute of Child Health (part of University College)	235		8	4	
2403	Institute of Education		335		169	40
2474	Institute of Psychiatry (part of King's College)		10		11	6
2410	King's College London	2,566		695	169	
2412	London School of Economics & Political Science	722		175	55	
2434	London School of Hygiene & Tropical Medicine	430		68	26	
2413	Queen Mary & Westfield College	1,143		505	101	
2447	Royal Holloway and Bedford New College	611		226	33	
2436	Royal Veterinary College		173		49	16
2428	St George's Hospital Medical School		373		54	16
2415	School of Oriental & African Studies		358		160	40
2416	School of Pharmacy		82		27	5
2417	University College	3,572		828	159	
2484	London Business School		208		28	10
4600	Loughborough		1,138		355	111
2500	Manchester		2,992		971	205
5100	UMIST		1,047		386	64
1400	Newcastle-upon-Tyne		1,921		634	155
2600	Nottingham		2,346		555	125
8900	Open		2,361		470	96
2700	Oxford (University)		3,406		886	280
2701	All Souls		30		8	4

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued

No.	Name		MEMBERS		PENSIONERS	
					Pensioner Members	Spouses, Dependants and Dependent Children
2702	Balliol				22	3
2703	Brasenose				12	4
2704	Christ Church				46	6
2705	Corpus Christi				14	7
2706	Exeter				16	3
2707	Hertford				17	3
2708	Jesus				17	5
2709	Keble				20	5
2710	Lady Margaret Hall				13	6
2734	Linacre				5	2
2711	Lincoln				17	4
2712	Magdalen				34	11
2735	Harris Manchester				12	3
2732	Mansfield				30	4
2713	Merton				24	8
2714	New College				35	9
2715	Nuffield				37	8
2716	Oriel				17	8
2717	Pembroke				10	5
2718	Queen's				25	8
2736	Regent's Park				2	—
2719	St Anne's				22	9
2720	St Antony's				19	7
2721	St Catherine's				21	8
2722	St Edmund Hall				6	1
2723	St Hilda's				23	7
2724	St Hugh's				24	7
2725	St John's				33	7
2726	St Peter's				17	2

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS		PENSIONERS	
		Pensioner Members	Spouses, Dependants and Dependent Children	Pensioner Members	Spouses, Dependants and Dependent Children
2727	Somerville	12	8	—	—
7028	Templeton	30	15	2	—
2728	Trinity	12	3	—	—
2729	University	19	7	—	—
2730	Wadham	10	7	—	—
2733	Wolfson	17	6	—	—
2731	Worcester	16	8	1	—
2800	Reading	1,376	438	118	—
0400	St Andrews	707	212	47	—
4800	Salford	810	469	74	—
2900	Sheffield	2,320	612	114	—
3000	Southampton	2,187	510	97	—
0500	Stirling	723	172	35	—
0600	Strathclyde	1,420	479	140	—
4000	Surrey	1,167	341	60	—
3200	Sussex	904	354	60	—
6800	Ulster	1,434	299	65	—
3900	Wales (University)	63	23	4	—
3300	Aberystwyth	592	249	61	—
3400	Bangor	718	276	66	—
3500	College of Cardiff	1,575	556	143	—
3800	Lampeter	106	40	10	—
3600	Swansea	904	309	77	—
3700	University of Wales College of Medicine	542	105	27	—
5000	Warwick	1,480	297	57	—
5200	York	1,124	194	36	—
Old university institutions total		89,282	26,399	6,061	

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS		PENSIONERS	
		Pensioner Members	Spouses, Dependants and Dependent Children	Pensioner Members	Spouses, Dependants and Dependent Children
	New universities admitted for limited membership only				
8160	Abertay	2	—	—	—
8100	Bournemouth	5	—	—	—
8080	Brighton	10	—	—	—
8150	Central Lancashire	2	—	—	—
8110	Coventry	19	—	—	—
8060	De Montfort	11	—	—	—
8010	Glamorgan	6	—	—	—
8210	Greenwich	—	—	—	—
8040	Hertfordshire	2	—	—	—
8050	Huddersfield	3	—	—	—
8170	Kingston	1	—	—	—
8190	Lincolnshire & Humberside	1	—	—	—
8140	Manchester Metropolitan	7	—	—	—
8240	North London	1	—	—	—
8090	Nottingham Trent	14	1	—	—
8120	Oxford Brookes	14	—	—	—
8070	Plymouth	14	1	—	—
8220	Sheffield Hallam	—	—	—	—
8020	South Bank	32	—	—	—
8030	Thames Valley	2	1	—	—
8180	University of Wales Institute, Cardiff	1	—	—	—
8130	Westminster	4	—	—	—
	New university institutions total	151	3	—	—
	All university institutions total	89,433	26,402	6,061	

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS		MEMBERS	PENSIONERS	
No.	Name		Pensioner Members	Spouses, Dependents and Dependent Children
7113	Aberdeen Univ Research & Ind Services Ltd	3	-	-
7010	Animal Health Trust	40	5	-
7040	Arthritis Research Campaign	1	2	-
7178	Assessment and Qualifications Alliance	35	1	-
7154	Associated Examining Board	2	4	-
7011	Association of Commonwealth Universities	25	34	5
7108	Aston Techn Planning & Management Services Ltd	-	-	-
7067	Beatson Institute for Cancer Research	54	3	1
7084	BLCMP (Library Services) Ltd	2	3	-
7037	Brewing Research International	30	13	2
7012	British Glass Manufacturers' Confederation	-	7	-
7030	British Institute in Eastern Africa	2	1	-
7091	British Institute of Archaeology at Ankara	1	1	-
7112	British Institute of International & Comp Law	3	1	-
7097	British Psychological Society	3	1	-
7087	British School at Athens	3	1	1
7092	British School at Rome	4	-	-
7033	British School of Archaeology in Iraq	-	-	-
7050	British Universities Sports Association	1	-	-
7133	Brunel Institute of Organisation & Social Studies	1	1	-
7122	Burden Neurological Institute	4	-	-
7116	Cambridge Crystallographic Data Centre	32	3	-
7060	Cancer Research Campaign	11	8	-
7153	CASE	2	1	-
7015	College of Estate Management	23	19	11
7121	Universities UK	31	8	2
7100	Company of Biologists Ltd	-	-	-
7110	Council for British Research in the Levant	3	-	-
7098	Culham College Inst for Church Related Education	1	-	-

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS continued		MEMBERS	PENSIONERS	
No.	Name		Pensioner Members	Spouses, Dependents and Dependent Children
7145	Dartington Hall Trust	12	-	-
7055	East Grinstead Med Research Trust (Blond Labs Ltd)	1	2	-
7159	Edexcel Foundation	33	18	-
7164	Edinburgh Business School	13	1	-
7032	Edinburgh University Students' Association	74	4	-
7182	EDUSERV	25	-	-
7089	Ewing Foundation	2	1	-
7120	Family Policy Studies Centre	-	-	-
7175	Freshwater Biological Association	4	-	-
7051	FSSU Secretariat	-	-	1
7041	Geographical Association	5	2	1
7152	Gray Laboratory	30	2	-
7148	Gyosei International College in the UK	23	-	-
7025	Henley Management College	54	28	4
7157	Higher Education Careers Service Unit	6	4	-
7176	HEFCE	1	-	-
7186	Higher Education South East	1	-	-
7135	Higher Education Statistics Agency Ltd	18	1	2
7053	History of Parliament Trust	27	4	-
7143	Homerton College	8	3	-
7170	Hull University Union	6	-	-
7036	Inns of Court School of Law	80	15	6
7079	Institute of Community Studies	8	5	1
7017	Institute of Development Studies	78	33	4
7056	Institute of Food Science & Technology	3	-	-
7029	Institute for Employment Studies	7	8	-
7124	International Institute of Biotechnology	1	-	-
7132	International Society (Manchester)	2	-	-
7149	International Students House	4	-	-

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS continued		MEMBERS	PENSIONERS	
No.	Name		Pensioner Members	Spouses, Dependents and Dependent Children
7054	Joint Library of Hellenic & Roman Societies	—	1	—
7147	JNT Association	30	3	2
7066	Journal of Endocrinology Ltd	—	1	—
7177	Learning from Experience Trust	2	—	—
2482	Lister Institute of Preventive Medicine	1	5	4
7171	London Institute	1	—	—
7168	London Mathematical Society	1	—	—
7179	London School of Jewish Studies	3	—	—
7117	Ludwig Inst for Cancer Research - Middlesex Branch	24	—	—
7039	Ludwig Inst for Cancer Research - St Mary's Branch	8	3	—
7090	Marie Curie Cancer Care	36	2	5
7125	Marine Biological Association of the United Kingdom	19	—	—
7096	Modern Humanities Research Association	2	1	—
7094	Motor Industry Research Association	56	39	7
7059	Museum Documentation Association	—	—	—
7114	Nat Collections of Ind & Marine Bacteria Ltd	3	3	—
7018	National Inst of Economic & Social Research	19	8	2
7080	Norfolk Agricultural Station (Morley Res Centre)	10	3	—
7073	Northern College for Residential Adult Education	28	4	2
7024	Northern Examinations and Assessment Board	1	19	6
7146	Northern Ireland Council for Postgraduate Med & Dental Educ	4	1	—
7115	Northern Ireland Economic Research Centre	13	—	5
7048	Numerical Algorithms Group Ltd	69	1	1
7155	Nuffield Trust	8	—	—
7183	NYU in London	4	—	—
7161	OMCRG	—	—	—
7058	Open University Worldwide	19	4	—
7023	Overseas Development Institute	42	6	—
7174	Oxford Cambridge & RSA Examinations	6	—	—

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS continued		MEMBERS	PENSIONERS	
No.	Name		Pensioner Members	Spouses, Dependents and Dependent Children
7118	Oxford Centre for Islamic Studies	3	—	—
7031	Oxford Centre for Hebrew & Jewish Studies	12	2	—
7163	Oxford Policy Institute	1	—	—
7104	Pain Relief Foundation	3	—	—
7075	Policy Studies Institute	19	10	3
7139	Preformation of Undergraduate Engineers	19	6	—
7134	Prince of Wales's Institute of Architecture	4	2	—
7162	Quality Assurance Agency	36	6	2
7052	Reading University Students' Union	—	1	—
7156	Regulatory Policy Institute	2	—	—
7123	Richmond College	34	6	—
7185	Royal Academy of Dancing	—	—	—
7160	Royal Academy of Music	3	—	—
7081	Royal College of Paediatrics and Child Health	2	1	—
7181	Royal College of Music	2	—	—
7020	Royal College of Surgeons of England	104	27	12
7021	Royal Geographical Society	4	3	1
7082	Royal Institute of International Affairs	2	—	—
7077	Royal Institution	14	7	—
7158	Royal Northern College of Music	2	—	—
7064	Royal Society	—	—	1
7070	Royal Society of Edinburgh	2	2	—
7022	Ruskin College	39	16	6
7105	School Mathematics Project	4	2	—
7130	Scottish Association for Marine Science	26	1	—
7169	Society of Antiquaries of London	5	—	—
7131	Southern Universities Management Services	7	3	—
7180	Standing Conference of Principals Ltd	1	—	—
7042	Strangeways Research Laboratory	5	7	3

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS		PENSIONERS	
		Pensioner Members		Spouses, Dependants and Dependent Children	
7049	Students' Union University of Leicester	1	2	1	
7138	Thrombosis Research Institute	26	1	—	
7109	Trade Union Research Unit Ltd	1	—	—	
7173	Trinity College of Music	3	—	—	
7141	TUIREG	2	—	—	
7106	Universities and Colleges Admissions Service	24	10	8	
7166	UMIST Ventures Ltd	4	—	—	
7150	Universities and Colleges Employers Association	4	1	—	
7151	Universities and Colleges Staff Development Agency	6	4	—	
7184	University Council for the Education of Teachers	3	—	—	
7140	University of Leeds Innovations Ltd	5	—	—	
7129	University of Swansea Students' Union	—	—	—	
9999	USS Ltd	115	22	4	
7165	Westhill College of Higher Education	—	—	—	
7065	Wildfowl & Wetlands Trust	1	8	—	
7142	WP Management Ltd	1	—	—	
7027	York Archaeological Trust	2	1	—	
7076	Zoological Society of London	23	11	—	
—	Withdrawn institutions	—	44	12	
Non-university institutions total		1,828	558	128	
All institutions total		91,261*	26,960	6,189	

*Included in this figure (but counted once only) are 1,750 members who have more than one appointment.

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

SUMMARY OF MOVEMENTS during the year ended 31 March 2001

Members	University Institutions	Non-University Institutions	Totals
Total members at 1 April 2000	83,473	1,669	85,142
New members	13,735	319	14,054
Retirements	- Ill-health - Other	149 1,588	150 39
Deaths	69	3	72
Leavers and withdrawals	- Refunds - Deferred/undecided - Retrospective*	735 5,010 224	760 5,102 224
Total members at 31 March 2001	<u>89,433</u>	<u>1,828</u>	<u>91,261</u>

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

In addition USS Ltd was notified during the year of 2,768 employees who became eligible to join the scheme but who elected not to do so.

Pensioner Members	University Institutions	Non-University Institutions	Totals
Total pensioners at 1 April 2000	25,080	531	25,611
New pensioners	1,885	30	1,915
Deaths	(563)	(3)	(566)
Total pensioners at 31 March 2001	<u>26,402</u>	<u>558</u>	<u>26,960</u>

In addition at 31 March 2001, there were 5,443 pensions being paid to spouses and dependants and 746 annuities being paid to dependent children. Deferred pensioners not yet receiving a pension totalled 45,398.

FUND ACCOUNT for the year ended 31 March 2001

	Note	2001 £m	2000 £m
Contributions and Benefits			
Contributions receivable	3	564.5	522.7
Premature retirement scheme receipts		34.9	36.5
Transfers in	4	92.5	92.7
		691.9	651.9
Benefits payable	5	537.6	505.7
Payment on account of leavers	6	27.8	20.7
Administration costs	7	6.3	6.5
		571.7	532.9
Net additions from dealings with members		120.2	119.0
Returns on investments			
Investment income	8	522.4	494.0
Change in market value of investments	9	(2,561.9)	2,559.1
Investment management expenses	10	(15.6)	(14.3)
Net returns on investments		(2,055.1)	3,038.8
Net (decrease)/increase in the fund during the year		(1,934.9)	3,157.8
Fund at start of year		21,973.1	18,815.3
Fund at end of year		20,038.2	21,973.1

STATEMENT OF NET ASSETS as at 31 March 2001

	Note	2001 £m	2000 £m
Investments			
Securities	12	17,451.7	19,664.0
Property	13	1,592.1	1,516.2
Life assurance policies	14	212.1	250.0
Cash deposits		643.8	454.4
Stockbroker balances	15	(23.3)	(41.1)
		19,876.4	21,843.5
Net current assets	16	161.8	129.6
Total net assets, representing the fund balance		20,038.2	21,973.1

The financial statements on pages 48 to 55 and the statement of trustee's responsibilities on page 56 were approved by the trustee, Universities Superannuation Scheme Limited, on 26 July 2001 and were signed on its behalf by:

G J Davies
Chairman

D B Chynoweth
Chief Executive

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2001

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" except that transactions and fund values in respect of money purchase AVCs have not been disclosed in the fund account and the net assets statement on the grounds that the amounts involved are not material. However, details of AVC transactions are included in note 3 to the financial statements.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. 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 statements by the actuary on pages 58 to 61 and these financial statements should be read in conjunction with it.

2. Accounting Policies

A summary of the significant accounting policies which have been applied consistently by the scheme is set out below.

Contributions

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 are accounted for in the period in which they fall due.

Investment income

Investment income is brought into account on the following bases:

- (a) Dividends, tax and interest from quoted and unquoted securities, on the date that the scheme becomes entitled to the income;
- (b) Interest on cash deposits, as it accrues;
- (c) Property rental income, as it accrues;
- (d) Interest on advances for property developments, which is credited to 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 either substantially let or, although not substantially let, is neither within the period of contractors' defects nor is expected to be the subject of further building works. Developments in progress include any property which is not a completed property.

Life assurance policies

Policy proceeds and premiums paid are not treated as income and outgoings but are accounted for within the value at which the life assurance policies are included in the statement of net assets.

Rates of exchange

Assets and liabilities denominated in overseas currencies are translated into sterling at the rates of exchange ruling at the balance sheet date and any exchange movements on translation are included in the fund account.

Net 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 mid market prices depending on the convention of the stock exchange on which they are quoted; |
| (b) Property | – on the basis of open market value; |
| (c) Life assurance policies | – at the amount disclosed by an annual actuarial valuation. |

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

3. Contributions

	2001	2000
	£m	£m
Main section		
Employers' contributions	377.5	349.8
Members' basic contributions	161.7	149.7
Members' additional voluntary contributions	15.9	14.5
	<hr/>	<hr/>
	555.1	514.0
Supplementary section		
Members' contributions	9.4	8.7
	<hr/>	<hr/>
	564.5	522.7

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

Money purchase additional voluntary contributions

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 the Inland Revenue. The contributions paid and the investments purchased are not included in the accounts.

The value of the accumulated additional voluntary contributions at the end of the year together with a summary of the movements during the year is as follows:

	2001 £m	2000 £m
Value at the start of the year	68.7	47.7
Contributions from members	21.6	19.8
Transfers in	0.5	0.4
Income from interest and bonuses	4.0	2.9
Payouts to members	(2.5)	(1.9)
Administration expenses	(0.2)	(0.2)
Value at the end of the year	92.1	68.7

4. Transfers in

	2001 £m	2000 £m
Individual transfers in	67.3	76.6
Group transfers in	25.2	16.1
	92.5	92.7

5. Benefits payable

Main section	2001 £m	2000 £m
Pensions	440.4	412.1
Lump sums on or after retirement	82.8	78.9
Lump sums on death in service	7.9	7.9
	531.1	498.9
Supplementary section		
Pensions	5.9	5.5
Lump sums on or after retirement	0.4	0.9
Lump sums on death in service	0.2	0.4
	6.5	6.8
	537.6	505.7

6. Payments on account of leavers

	2001 £m	2000 £m
Individual transfers to other schemes	25.8	19.2
Payments for members joining state scheme	0.7	0.5
Refunds to members leaving service	1.3	1.0
	27.8	20.7

7. Administration costs

In accordance with the trust deed, the costs of managing and administering the scheme, incurred by the trustee company, are chargeable to USS. Details are given in the financial statements of the trustee company (Universities Superannuation Scheme Limited: Registered No. 1167127).

8. Investment income

	2001 £m	2000 £m
Dividends from UK equities	283.7	287.7
Net property income	73.4	62.7
Dividends from overseas equities	49.9	45.5
Income from UK fixed interest securities	30.5	29.5
Income from overseas fixed interest securities	48.6	43.8
Income from index-linked securities	6.7	5.5
Interest on cash deposits	28.6	17.7
Other income	1.0	1.6
	522.4	494.0

9. Changes in market value of investments

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

	Market value 2000 £m	Purchases during the year at cost £m	Proceeds of sales during the year £m	Changes in value during the year £m	Market value 2001 £m
Securities	19,664.0	5,228.7	(4,819.7)	(2,621.3)	17,451.7
Property	1,516.2	133.5	(97.1)	39.5	1,592.1
Life assurance policies	250.0	1.5	(46.4)	7.0	212.1
Cash deposits	454.4	176.5	—	12.9	643.8
	21,884.6	5,540.2	(4,963.2)	(2,561.9)	19,899.7
Stockbroker balances	(41.1)				(23.3)
					19,876.4

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.

10. Investment management expenses

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

11. Taxation

UK tax

USS is an exempt approved scheme under the Income & Corporation Taxes Act 1988 and is therefore not normally liable to UK 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 tax suffered is deducted from the income to which it relates.

Investment income arising from stocks and securities in the United States of America is exempt from US tax under the Internal Revenue Code.

12. Securities

	2001 £m	2000 £m
Quoted		
UK equities	11,347.9	12,855.8
Overseas equities	4,359.7	5,223.6
UK fixed interest - public sector quoted	354.5	332.7
UK fixed interest - other	141.5	102.8
Overseas fixed interest - public sector quoted	626.1	662.8
Overseas fixed interest - other	340.9	254.0
Index-linked	281.1	232.3
	17,451.7	19,664.0

13. Property

	2001 £m	2000 £m
UK completed properties	1,321.5	1,318.8
UK developments in progress	270.6	197.4
	1,592.1	1,516.2
Properties analysed by type:		
Freehold	1,490.8	1,398.0
Leasehold	101.3	118.2
	1,592.1	1,516.2

The completed properties and developments in progress were valued independently by Colliers Conrad Ritblat Erdman, chartered surveyors, as at 31 March 2001 and 31 March 2000.

14. Life assurance policies

The scheme continues to hold policies with the Equitable Life Assurance Society which were assigned to it in respect of former FSSU members, the majority of the policies being "with profits". The basis of valuation is stated in Note 2.

On 16 July 2001 Equitable Life announced a reduction to the value of pension policies of 16% and there has been no growth on policies for the period 1 January 2001 to 30 June 2001. No adjustment has been made to the policy values at 31 March 2001 in these financial statements.

15. Stockbroker balances

	2001 £m	2000 £m
Amount due to stockbrokers	(23.3)	(45.9)
Amount due from stockbrokers	—	4.8
	(23.3)	(41.1)

16. Net current assets

	2001 £m	2000 £m
Current assets		
Dividends receivable	118.7	82.3
Contributions due from institutions	63.6	60.3
Cash at bank and in hand	16.9	11.7
Other debtors	4.8	6.1
Life assurance policy proceeds due	0.6	1.7
	204.6	162.1

Current liabilities

	2001 £m	2000 £m
Property creditors	14.9	10.8
Benefits payable	14.1	10.2
Other creditors	6.9	2.9
Due to USS Ltd	6.9	8.6
	42.8	32.5
	161.8	129.6

17. 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, government bonds and letters of credit.

	2001 £m	2000 £m
Value of stock on loan at 31 March	333.5	349.5
Value of collateral held at 31 March	351.4	367.0

18. Financial commitments

	2001 £m	2000 £m
Property		
Contracts placed but not provided for	49.1	78.1
Securities		
Forward commitments for unpaid calls on securities and underwriting contracts	129.0	7.6

19. Self investment

The scheme has no employer related investments as at 31 March 2001. Employer related investment occurred during the year from the late receipt of contributions due from institutions. At any time this was less than 0.025% of the scheme's net assets as at 31 March 2001.

20. Related party transactions

There are no related party transactions other than transactions between the scheme and its trustee company. The trustee company provides administration services, the cost of which includes directors' emoluments as detailed in note 5 of the trustee company accounts, and investment management services to the scheme, charging £6.3 million and £15.6 million respectively, with a balance due from the scheme of £6.9 million at 31 March 2001.

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements are the responsibility of the trustee, Universities Superannuation Scheme Limited. 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 its 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 financial statements 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 any estimates and judgements on a prudent and reasonable basis.

The trustee is also 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 for the period from 22 May 2000 and, prior to this date, in accordance with the scheme rules and with the recommendations of the actuary.

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 them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT to the trustee of the Universities Superannuation Scheme

We have audited the financial statements on pages 48 to 55, which have been prepared under the accounting policies set out on pages 50 and 51.

Respective responsibilities of trustee and auditors

The scheme's trustee is responsible for obtaining an annual report including, as described on page 56, audited financial statements prepared in accordance with applicable United Kingdom accounting standards. The trustee is also responsible for ensuring that contributions are made to the scheme in accordance with the scheme rules and recommendations of the actuary and with the schedule of contributions. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and our opinion on contributions to the scheme. We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion and statement about contributions

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the trustee in the preparation of the financial statements, and of whether the accounting policies are appropriate to the scheme's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our work also included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and timing of those payments in order to provide us with reasonable assurance that contributions have been paid in accordance with the scheme rules and recommendations of the actuary and in accordance with the schedule of contributions dated 22 May 2000.

Statement about contributions to the scheme

In our opinion, the contributions payable to the scheme during the period 1 April 2000 to 21 May 2000 have been paid in accordance with the scheme rules and recommendations of the actuary, and the contributions during the period 22 May 2000 to 31 March 2001 have been paid in accordance with the schedule of contributions dated 22 May 2000.

Opinion

In our opinion the financial statements give a true and fair view of the financial transactions of the scheme during the year ended 31 March 2001, 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 year, 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.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Liverpool

26 July 2001

STATEMENT BY THE ACTUARY for the year ended 31 March 2001

- 1 An actuarial valuation of the Universities Superannuation Scheme (the scheme) was carried out as at 31 March 1999 with the results set out in our report dated 23 March 2000.
- 2 The 1999 valuation showed that the scheme was in a healthy financial position. Part of the past service surplus was allocated to provide for certain benefit improvements. No change to the institutions' contribution rate was proposed which therefore remained at the rate of 14% of salaries, subject to review at the next valuation at 31 March 2002.
- 3 On the instructions of the management committee an actuarial review of the scheme has been completed at 31 March 2001. A review was also completed at 31 March 2000.
- 4 The purpose of this actuarial review is to examine the experience of the scheme since the last review at 31 March 2000. The actuarial review compares the experience of the scheme with the assumptions made at the 1999 valuation. This is to determine whether the scheme has been progressing satisfactorily or whether any deterioration has taken place which might require remedial action.
- 5 The main items which have affected the scheme during the year under review and the effect of each are described below:
 - (a) The investment performance for the year has been less favourable than the assumption made at the 1999 valuation. This has acted to reduce the funding position of the scheme.
 - (b) Changes in market conditions (reflected in a lower, long term rate of inflation as derived from the market) have served to improve the funding level.
 - (c) The cost of continuing the 14% institutions' contribution rate continues to be met from surplus brought forward from the 1999 valuation.
- 6 The results of the review show that the overall funding level of the scheme is expected to have reduced since the 2000 review, to a level similar to that revealed at the 1999 valuation. The assets of the scheme therefore remain more than sufficient to cover the accrued liabilities as at 31 March 2001.
- 7 As described in paragraph 2 above, the rate of contribution currently being paid by the institutions is 14% of salaries. On the basis of the interim review carried out, I am pleased to recommend that this current rate of contribution can continue in force until the completion of the next actuarial valuation at 31 March 2002.

William M Mercer Ltd
Liverpool L2 3QB
26 July 2001

E S Topper
Fellow of the Institute of Actuaries

ACTUARIAL STATEMENT made for the purposes of Regulation 14 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996.

Name of scheme: Universities Superannuation Scheme
Effective date of valuation: 31 March 1999

1. Compliance with minimum funding requirement

In my opinion, on the effective date the value of the assets of the Scheme exceeds 120% of the amount of the liabilities of the Scheme.

2. Valuation principles

The Scheme's assets and liabilities are valued in accordance with section 56(3) of the Pensions Act 1995, the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 and the mandatory guidelines on minimum funding requirement (GN27), prepared and published by the Institute of Actuaries and the Faculty of Actuaries.

William M Mercer Limited
Liverpool L2 3QB
23 March 2000

M B Reid

Fellow of the Institute of Actuaries

Note:

The valuation of the amount of the liabilities of the Scheme does not reflect the cost of securing those liabilities by the purchase of annuities, if the Scheme were to have been wound up on the effective date of the valuation.

ACTUARIAL STATEMENT made for the purposes of Regulation 30 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996.

Name of scheme: Universities Superannuation Scheme
Effective date of valuation: 31 March 1999

1. Security of prospective rights

In my opinion, the resources of the Scheme are likely in the normal course of events to meet in full the liabilities of the Scheme as they fall due. In giving this opinion, I have assumed that the following amounts will be paid to the Scheme:

Description of contributions:

By the employer: 14% of salary
By the members: 6.35% of salary

Subject to review at future actuarial valuations.

2. Summary of methods and assumptions used

Further details of the methods and assumptions used are set out in my actuarial valuation addressed to the Trustee Company dated 23 March 2000.

William M Mercer Limited
Liverpool L2 3QB
23 March 2000

M B Reid
Fellow of the Institute of Actuaries

ACTUARIAL CERTIFICATE given for the purposes of Section 57(1)(b) of the Pensions Act 1995 (Occasional or Periodical Certification of Contributions).

Update Certification of Schedule of Contributions.

Name of scheme: Universities Superannuation Scheme

1. Adequacy of rates of contributions

I hereby certify that, in my opinion, the rates of the contributions payable in accordance with the schedule of contributions dated 22 May 2000 are adequate for the purpose of securing that the minimum funding requirement imposed by Section 56(1) of the Pensions Act 1995 will continue to be met throughout the remainder of the period covered by the schedule of contributions.

In forming this opinion I have complied with the requirements imposed by Sections 56(3) and 57 of the Pensions Act 1995, the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 and the mandatory guidelines on minimum funding requirement (GN27), prepared and published by the Institute of Actuaries and the Faculty of Actuaries, and have made the assumptions prescribed by them.

2. Relevant changes since last actuarial valuation

Since the last actuarial valuation of the scheme was prepared under section 57 of the Pensions Act 1995 no changes which are relevant have occurred.

William M Mercer Limited
Liverpool L2 3QB
8 June 2001

E S Topper
Fellow of the Institute of Actuaries

Note:

The certification of the adequacy of rates of contributions for the purpose of securing the meeting of the minimum funding requirement is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were wound up.

FIVE YEAR SUMMARY - FUND ACCOUNTS for years ended 31 March

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Contributions and benefits					
Contributions	565	523	481	457	501
PRS receipts	35	37	41	56	46
Transfers in	92	92	68	90	31
	692	652	590	603	578
Benefits payable					
Pensions	446	417	384	348	313
Lump sums	91	88	91	103	90
Transfers out	27	20	22	18	22
Refunds	1	1	1	1	1
	565	526	498	470	426
Returns on investments (net of investment management costs)					
	507	480	497	494	505
Administration costs of the trustee (excluding investment management costs)					
	6.3	6.5	6.4	5.9	5.8
Changes in value of investments					
	(2,562)	2,559	882	3,062	931
Investments of the fund (at current values) at 31 March					
Securities	17,452	19,664	16,730	15,307	11,958
Property	1,592	1,516	1,175	910	840
Life assurance policies	212	250	264	282	274
Cash deposits	644	454	492	662	474
Stockbroker balances	(23)	(41)	26	80	3
	19,877	21,843	18,687	17,241	13,549
Membership numbers at 31 March					
Contributing members	91,300	85,100	81,600	78,700	76,900
Pensioners	33,100	31,400	29,900	28,200	26,100
Deferred pensioners	45,400	42,000	37,600	33,700	30,200
	169,800	158,500	149,100	140,600	133,200

REPORT OF THE DIRECTORS for the year ended 31 March 2001

The directors submit their report and the accounts for the year ended 31 March 2001.

Principal activity

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

Operating costs and review of activities

The operating costs for the year amounted to £21,941,000 this amount being recoverable from USS. This compares with £20,783,000 for the year ended 31 March 2000.

Investment management costs have increased by 9.7% while other administration costs have fallen by 3.5%. Although the fund's investment performance has been well below that of the previous year investment management costs have remained high mainly due to another excellent year from one of the external managers, Capital International, whose fee is performance related.

The fall in other administration costs is due mainly to the receipt during the year of VAT on Liverpool administration costs dating back to 1984. This followed negotiations with HM Customs & Excise which have been ongoing for a number of years. Excluding this amount, other administration costs increased by 2.2%. The treatment of certain costs in the previous year as Year 2000 costs (primarily those relating to the implementation of a new pensions payroll system which would ordinarily have been capitalised) also contributed to the relatively low increase in costs from the previous year.

Negotiations with HM Customs & Excise also resulted in further VAT recoveries for USS institutions. The total amount recoverable by them in respect of costs backdated to 1984 is dependent on the proportion of VAT recoverable by each institution but is likely to be in the region of £300,000.

Development and enhancement of the new pensions administration software, the Universal Pensions Management system, has continued since its implementation in August 2000. Increased productivity has been achieved following the implementation although it is still a relatively new product and a number of operational difficulties have been encountered in using it. Work in hand built up during, and subsequent to, the implementation of the system and this, together with an unexpectedly high increase in incoming work, resulted in work in hand reaching a level that had not been anticipated. Action is being taken within the Liverpool office to ensure the return to a satisfactory level of service.

Fixed assets

The details of movements in fixed assets are set out in Note 15 to the accounts.

Directors

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

Professor Sir Graeme Davies (chairman)	Dr J M Goldstrom
C D Donald (deputy chairman)	Professor Sir Martin Harris
A S Bell	Lord Mark Fitzalan Howard
L Collinson	Michael S Potts
Angela Crum Ewing	Professor Sir Gareth Roberts
Professor Sir Brian Fender	J W D Tryhall

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the operating costs of the company for that period. In preparing those financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting.

By order of the board

J P Williams
Secretary

26 July 2001

STATEMENT OF OPERATING COSTS for the year ended 31 March 2001

	Note	2001 £'000	2000 £'000
Personnel costs			
Employees' emoluments	4	5,490	4,933
Directors' emoluments and expenses	5	336	294
Recruitment, training and welfare		213	200
		6,039	5,427
Premises costs			
Rent, rates, service charges and utilities		1,385	1,408
Depreciation and maintenance		197	333
		1,582	1,741
Investment costs			
Securities management		10,254	10,075
Securities management rebates	6	(2,066)	(1,688)
Custodial services		1,336	1,243
Property management	7	1,835	872
Legal costs - property management		327	204
- securities management		33	(4)
- special investigation		50	141
Property valuation		198	129
Investment performance measurement		69	50
Costs met by third parties	8	-	(35)
		12,036	10,987
Other costs			
Computer and information services costs	9	1,515	1,220
Professional fees	10	785	571
Office equipment		356	315
Travel and car costs		348	339
Telephones and postage		170	145
Institution liaison and member communication		134	166
Printing and stationery		121	117
IMRO membership		104	110
Pensions Act Levy		53	50
Insurances		40	41
Auditors' remuneration	11	38	39
Year 2000 costs	12	-	317
Profit on disposal of fixed assets		(4)	(32)
Recovery of VAT for prior years	13	(373)	-
Costs met by third parties	8	(1,003)	(770)
		2,284	2,628
Total operating costs - recoverable from USS	14	21,941	20,783

BALANCE SHEET as at 31 March 2001

	Note	2001 £'000	2000 £'000
Assets			
Fixed assets			
Tangible fixed assets	15	832	895
Current assets			
Debtors	16	7,160	9,245
Cash at bank and in hand		1	1
		7,161	9,246
Total assets		7,993	10,141
Liabilities			
Creditors - amounts falling due within one year	17	7,993	10,141
Total liabilities		7,993	10,141

The financial statements on pages 65 to 74 were approved by the board of directors on 26 July 2001 and were signed on its behalf by:

G J Davies
Chairman

M B Harris
Director

CASH FLOW STATEMENT for the year ended 31 March 2001

	Note	2001 £'000	2000 £'000
Operating activities			
Cash received from USS		23,730	13,880
Operating costs paid	18	(23,326)	(13,671)
Net cash inflow from operating activities		404	209
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(443)	(253)
Sale of tangible fixed assets		39	43
		(404)	(210)
Increase/(Decrease) in cash		—	(1)

NOTES TO THE ACCOUNTS for the year ended 31 March 2001

1. The company, which is limited by guarantee and does not have a share capital, has no beneficial interest in the investments and other assets held in its name but not included in its balance sheet, since it holds these as the trustee of USS.

2. Format of accounts

A Profit and Loss Account is not presented with these accounts as such a statement is inappropriate to the operations of the company. The costs incurred and the method by which they are recovered are therefore set out in the Statement of Operating Costs.

A separate statement of total recognised gains and losses has not been presented as all gains and losses are included in the Statement of Operating Costs.

A separate note of historical cost profits and losses is not required as the accounts are prepared under the historical cost convention.

3. Accounting policies

Accounting convention

The accounts are prepared under the historical cost convention and on the accruals basis and comply with applicable Accounting Standards in the United Kingdom which have been consistently applied.

Depreciation of fixed assets

Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis over the expected economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Office equipment	15
Alterations to rented premises	20
Computer equipment	20 and 33½
Motor cars	25
Computer software	33½

Operating leases

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

Year 2000

Costs incurred in testing computer systems for year 2000 compliance and in replacing computer software and hardware which were not year 2000 compliant, and where the replacement system did not introduce significant improvements over the previous system, were written off in the year the costs were incurred.

Pensions

USS Ltd participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Earnings Related Pension Scheme. The fund is valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution payable being determined by the trustee company on the advice of the actuary. In the intervening years the actuary reviews the progress of the scheme. Pension costs are assessed in accordance with the advice of the actuary, based on the latest actuarial valuation of the scheme, and are accounted for on the basis of charging the cost of providing pensions over the period during which the company benefits from the employees' services.

4. Employees' emoluments

	2001	2000
	£000	£000
The average weekly number of persons employed by the company during the year (excluding directors) was	127	123
Staff costs for the above persons were:		
Wages and salaries	4,554	4,098
Pension costs (superannuation contributions)	467	419
Social security costs (national insurance contributions)	431	414
Restructuring costs	38	2
	<hr/>	<hr/>
	5,490	4,933
Emoluments of the chief executive	171	157

The emoluments of the chief executive are shown on the same basis as for higher paid staff. USS Ltd's pension contributions for him to USS amounted to nil (2000: nil).

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

	2001	2000
	£000	£000
£50,001 - £60,000	1	1
£60,001 - £70,000	2	1
£70,001 - £80,000	2	3
£80,001 - £90,000	3	2
£90,001 - £100,000	-	3
£100,001 - £110,000	1	2
£110,001 - £120,000	3	-
£120,001 - £130,000	1	2
£130,001 - £140,000	2	-
£140,001 - £150,000	-	1
£150,001 - £160,000	1	1
£170,001 - £180,000	1	-
£260,001 - £270,000	1	1
£380,001 - £390,000	-	1
£410,001 - £420,000	1	-

5. Directors' emoluments and expenses

	2001	2000
	£000	£000
Fees	275	245
Employer's costs - national insurance contributions	27	23
- VAT	4	4
Expenses	30	22
	<hr/>	<hr/>
	336	294

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 USS Ltd and their legal responsibilities.

No pension contributions are made on behalf of directors. As at 31 March 2001 seven of the directors are members of USS either as pensioners or through their employment with the institutions.

Directors' fees charged to the accounts in the years ended 31 March 2001 and 2000 reflect pay awards made after the year end in each of the last three years and small differences between the amounts accrued in the accounts at each year end and the amount paid. Actual emoluments paid to each director in respect of each of the last two years were as follows:

	2001 £000	2000 £000
Professor Sir Graeme Davies (chairman)	39	37
C D Donald (deputy chairman)	39	37
Lord Mark Fitzalan Howard	33	31
J W D Trythall	24	23
Mrs A Crum Ewing	23	22
L Collinson	21	20
M S Potts	18	17
A S Bell	17	16
Professor Sir Martin Harris	16	15
Dr J M Goldstrom	16	15
Professor Sir Gareth Roberts	12	12
Sir Brian Fender	10	10
	<hr/>	<hr/>
	268	255

6. Securities management rebates

Management fees and other charges incurred by securities managers on investment in their own in-house funds are rebated from the fees chargeable to USS Ltd. These costs are included within the book cost of the investments held by USS.

7. Property management charges

Letting fees have increased considerably due to a significant rise in the number of new lettings compared to the previous year. Rent review costs have also increased. Fees for rent reviews are linked to rental increases which have been the norm during the year and higher than in the previous year.

8. Costs met by third parties

Costs met by third parties represent the amount of the commission paid by USS to certain stockbrokers which is directed by the stockbrokers to the purchase of equipment and services for USS Ltd for investment management purposes.

9. Computer and information services costs

	2001 £000	2000 £000
Investment information services	732	479
Computer running costs	430	307
Investment accounting services	220	204
Hardware depreciation	78	95
Software depreciation	34	106
Computer bureau fees	21	29
	<hr/>	<hr/>
	1,515	1,220

10. Professional fees

	2001 £000	2000 £000
Legal	307	122
Actuarial	279	268
Taxation	36	59
Committee members (other than directors)	87	71
Public relations	26	18
Member medicals	13	9
Salary surveys	8	3
Information technology consultancy	5	11
Other	24	10
	<hr/>	<hr/>
	785	571

11. Auditors' remuneration

	2001 £000	2000 £000
USS	34	35
USS Ltd	4	4
	<hr/>	<hr/>
	38	39

Remuneration of the company's auditors for provision of services other than for the audit of USS and USS Ltd was £79,281 for taxation advice (2000: £56,550).

12. Year 2000 costs

	2001 £000	2000 £000
Computer software	—	51
Computer hardware	—	49
Software implementation and consultancy	—	210
Test equipment	—	7
	<hr/>	<hr/>
	—	317

13. Value Added Tax

USS Ltd 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.

During the year agreement was reached with HM Customs & Excise on recovery of VAT on certain administration costs incurred in the Liverpool office dating back to 1984. This figure is net of the cost of recovering the VAT.

14. Total operating costs - recoverable from USS

	2001 £'000	2000 £'000
Investment management costs	15,636	14,251
Other administration costs	6,305	6,532
	<hr/> <hr/>	<hr/> <hr/>
	21,941	20,783

Investment management costs are those costs which are directly attributable to investment activities and include relevant personnel, premises and other costs.

Included in operating costs is a charge for depreciation of £471,000 (2000: £689,000).

15. Tangible fixed assets

Cost	Alterations					
	Rented Premises £'000	Computer Equipment £'000	Computer Software £'000	Office Equipment £'000	Motor Cars £'000	Total £'000
At 1 April 2000	1,649	1,198	1,461	1,119	327	5,754
Additions	—	150	140	16	137	443
Disposals	—	—	—	—	(107)	(107)
At 31 March 2001	1,649	1,348	1,601	1,135	357	6,090
Accumulated Depreciation						
At 1 April 2000	1,507	1,128	1,285	782	157	4,859
Charge for year	131	77	34	145	84	471
Disposals	—	—	—	—	(72)	(72)
At 31 March 2001	1,638	1,205	1,319	927	169	5,258
Net Book Value						
31 March 2001	11	143	282	208	188	832
Net Book Value						
31 March 2000	142	70	176	337	170	895

16. Debtors - amounts falling due within one year

	2001 £'000	2000 £'000
Due from USS	6,848	8,637
Prepayments	296	565
Other debtors	16	43
	<hr/> <hr/>	<hr/> <hr/>
	7,160	9,245

17. Creditors - amounts falling due within one year

	2001 £'000	2000 £'000
Accrued expenditure	4,358	7,748
Other creditors	3,505	2,252
Taxation and social security	130	141
	<hr/> <hr/>	<hr/> <hr/>
	7,993	10,141

18. Reconciliation of operating costs paid

	2001 £'000	2000 £'000
Operating costs - recoverable from USS	21,941	20,783
Decrease/(increase) in creditors (excluding USS)	2,148	(6,297)
Profit on sale of tangible fixed assets	4	32
Depreciation	(471)	(689)
Decrease in debtors (excluding USS)	(296)	(158)
Operating costs paid	<hr/> <hr/>	<hr/> <hr/>
	23,326	13,671

19. Operating lease commitments

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

	2001 £'000	2000 £'000
Less than one year	1	11
Between two and five years	465	442
Over five years	396	377

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

20. Pension costs

The company participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Earnings-Related Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme, the cost recognised within the statement of operating costs for the year being equal to the contributions payable to the scheme for the year.

The latest actuarial valuation of the scheme was at 31 March 1999. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.6% per annum and pensions would increase by 2.6% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 5.5% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.5% per annum and pensions would increase by 2.5% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the market value of the assets of the scheme was £18.870 million (including an estimated £55 million in respect of outstanding bulk transfer payments due) and the value of the past service liabilities was £17,427 million leaving a surplus of assets of £1,443 million. The assets therefore were sufficient to cover 108% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The institution contribution rate required for future service benefits alone at the date of the valuation was 16.3% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries. To fund this reduction of 2.3% for the period of 11 years from the date of the valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £561 million of the surplus. It was also agreed, following the valuation, that £201 million of the surplus would be used to fund certain benefit improvements. This left a past service surplus of £681m (including the Supplementary Section) to be carried forward.

Surpluses or deficits which arise at future valuations may impact on the company's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2002 when the above rates will be reviewed.

The total pension cost for the company was £467,000 (2000: £419,000). The contribution rate payable by the company was 14% of pensionable salaries.

21. Related party transactions

There are no related party transactions other than transactions between the trustee company and the scheme. The trustee company provides administration and investment management services to the scheme charging £6.3 million and £15.6 million respectively, with a balance due from the scheme of £6.8 million at 31 March 2001.

REPORT OF THE AUDITORS to the members of Universities Superannuation Scheme Limited

We have audited the financial statements on pages 65 to 74 which have been prepared under the historical cost convention and the accounting policies set out on page 68.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 64 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

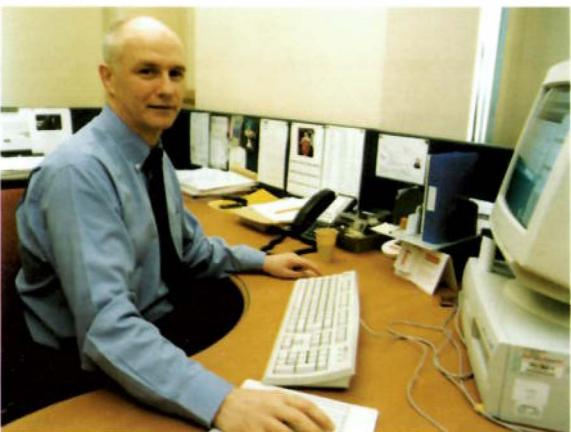
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2001 and of its result and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Liverpool
26 July 2001



Tony Dowling - Office Services Section Head
Head Office, Liverpool



Tom Naughton - Pacific Equities Manager
London Investment Office



Joanne Rowan - Office Services Supervisor
Head Office, Liverpool



Rob Rees - UK Smaller Companies Manager
London Investment Office



Shelagh O'Grady - Section Head, Contribution Accounting
making a presentation to seminar delegates in Liverpool



From left to right

Lord Mark Fitzalan Howard OBE
Chairman
Investment Committee

Colin Donald
Chairman
Finance & General Purposes Committee

Professor Sir Graeme Davies
Chairman

Len Collinson
Chairman
Remuneration Committee

Dr Christine Challis
Chairman
Audit Committee

Sir Kenneth Berrill
Chairman
Joint Negotiating Committee

Ms Jane McAdoo
Chairperson
Advisory Committee



From left to right

John P Williams
Company Secretary

Colin Hunter
Chief Accountant

David Chynoweth
Chief Executive

Peter Moon
Chief Investment Officer

Robert Walden
Surveyor

David Andrews
IT Manager



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