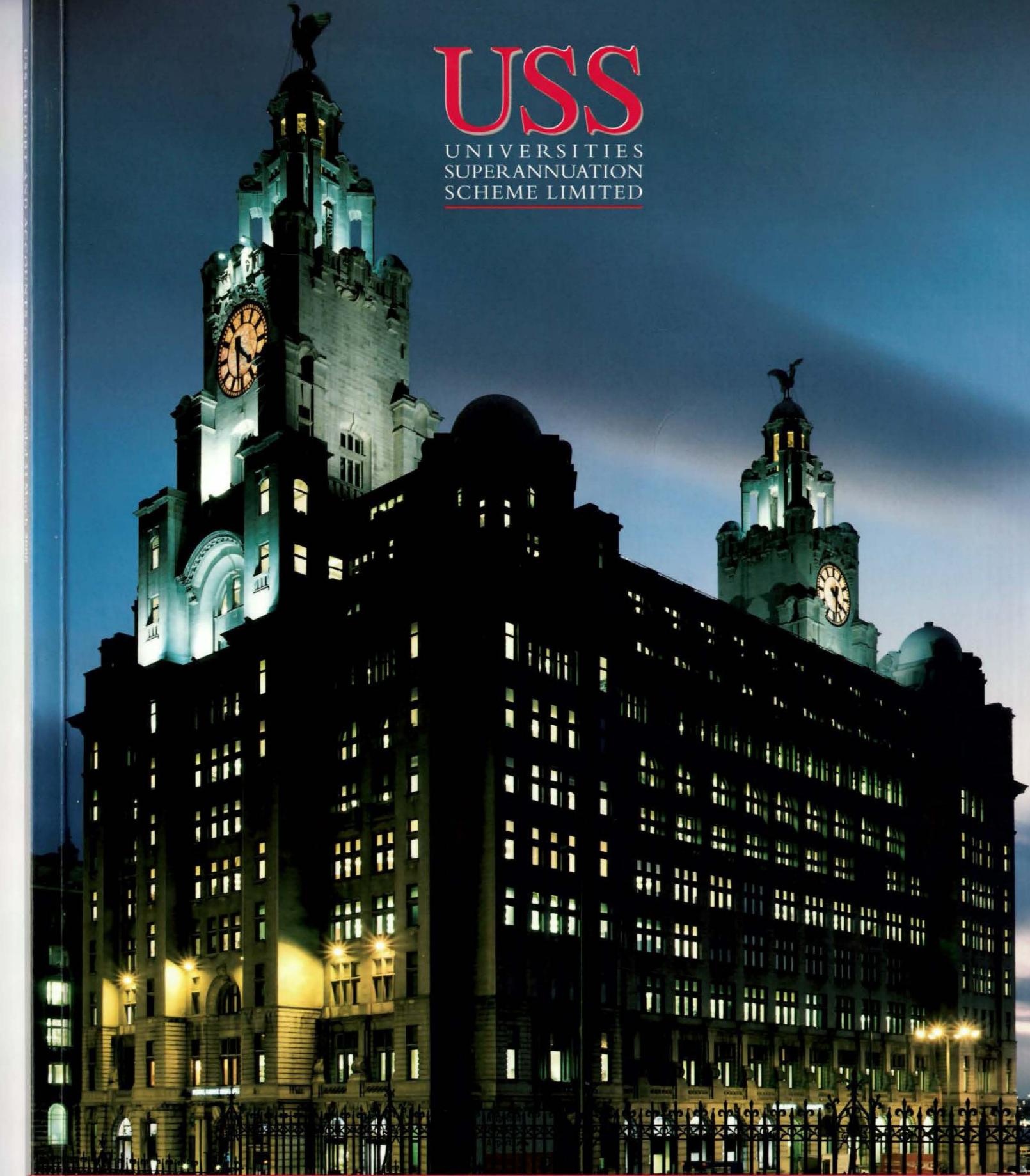


USS
UNIVERSITIES
SUPERANNUATION
SCHEME LIMITED



Report and Accounts
for the year ended 31 March 2000

Universities Superannuation Scheme Limited is the corporate trustee of one of the largest private sector pension funds in the UK with assets of almost £22 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.

USS

Management statement	2
Summary of year	3
Trustee company	4
Officers and advisers	4
Membership of committees	5
Committee reports	6
Management committee	6
Investment committee	16
Joint negotiating committee	29
Advisory committee	31
Statement of investment principles	32
Membership statistics	36
University institutions	36
Non-university institutions	42
Summary of movements	47
USS accounts	48
Fund account	48
Statement of net assets	49
Notes to the financial statements	50
Statement of trustee's responsibilities	56
Report of the auditors	57
Statements by the actuary	58
Five year summary	62
USS Ltd accounts	63
Report of the directors including the statement of directors' responsibilities	63
Statement of operating costs	65
Balance sheet	66
Cash flow statement	67
Notes to the accounts	68
Report of the auditors	74

The year to 31 March 2000 was again a period of continued growth for the fund. The scheme's active membership increased by 4.3% from 81,600 to 85,100 and there was substantial growth in the numbers of pensioners and those entitled to deferred benefits to 31,400 (up by 5%) and 42,000 (up by 11.7%) respectively. At 31 March 2000 the fund had total assets of almost £22 billion.

It was also a very good year for pension fund performance and an excellent year for the fund. The fund's performance in 1999 was comfortably ahead of its target, the 40th percentile of the WM50, and over the last five years ranks in the top third of funds in its peer group.

Last year we reported on the plans and testing being actioned to deal with the impact of the year 2000 date change on USS Ltd's systems and to ensure that all the systems were able to operate up to and beyond the millennium. We are pleased to report that no problems were experienced and all systems were available to staff on 4 January 2000. The trouble-free roll-over into the year 2000 was as a result of two years work by the year 2000 project team during which time all systems were tested and non-compliant hardware and software replaced.

Incorporated within that work was also the first stage in replacing the entire pensions administration software with a more modern system, the Universal Pensions Management system from Comino Plc (formerly known as Image Systems Europe). This system will provide faster and more accurate processing of pensions administration tasks and will integrate with both the accounting and pensions payroll systems. Implementation of the system was completed in August 2000 and the whole exercise spanning over two years was the largest ever undertaken by the company. It required a massive commitment of resources over that period and at one time or another has involved almost half of the workforce directly in the development, testing, checking or recording. Of course, while this was going on, we sought to maintain our normal service and, to the extent that this was possible, this was achieved only because of the extra efforts made by all of the staff, whether involved directly on the project or not.

We reported last year on plans to implement the recommendation of the Dearing Committee that all new entrants to universities should be directed to USS and that the management committee was investigating the possibility of enabling non-academic staff to join the scheme. 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.

Although these changes were made only a few months ago, there have already been some institutions that have decided to offer USS membership to their non-academics and other enquiries which are currently ongoing.

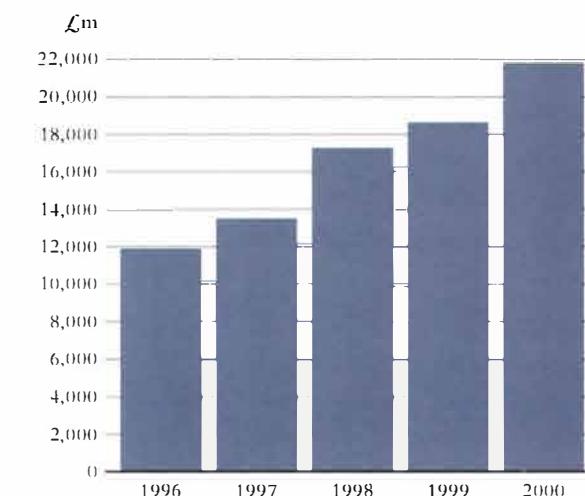


Graeme J Davies
Chairman



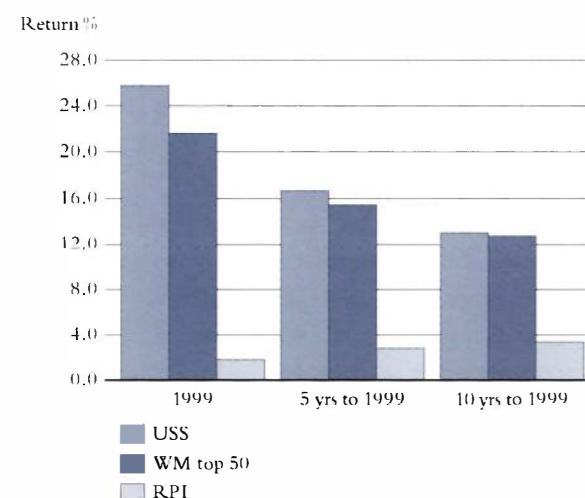
David B Chynoweth
Chief Executive

FUND



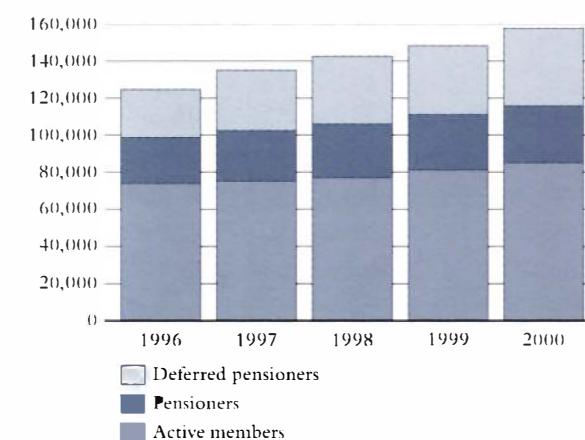
The fund continues to increase, having grown from £12 billion in 1996 to almost £22 billion as at 31 March 2000. More details are given in the investment committee report on page 16 and in the five year summary of the fund accounts on page 62.

PERFORMANCE



In a year of very good investment returns for pension funds the fund's investment return of 25.9% in 1999 was well ahead of the average of the 50 funds of over £1.5 billion in the WM Survey and well ahead of the retail price index. Over both five years and ten years the fund has outperformed the WM Top 50 average and comfortably exceeded the RPI. More details are given in the report of the investment committee on page 16.

MEMBERSHIP



The membership of the scheme continues to grow steadily. As at 31 March 2000 the total membership was 158,500, an increase of 6% 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 2000 are:

Chief Executive	D B Chynoweth BA CPFA FCCA FIMgt
Chief Investment Officer	P G Moon
Chief Pensions Manager	S M Neil BSc FFA
Chief Accountant	C S Hunter BSc CA
Company Secretary	J P Williams BA ACIS MIPD MIMgt
Surveyor	R G Walden BSc FRICS
Actuary	M B Reid BSc FIA FAPSA of William M Mercer Limited 30 Exchange Street East, Liverpool L2 3QB
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 Mitchells Roberton, Fried Frank Harris Shriver & Jacobson
Investment managers	Baillie Gifford & Co, Capital International Limited Schroder Investment Management Limited
Custodians	Deutsche Bank, Chase Manhattan Bank NA
Investment performance measurement	Investment Property Databank Ltd, The WM Company
Property valuers	Colliers Erdman Lewis
Computer software	Comino plc, Azlan Limited, Oracle Corporation UK Ltd, Druid Systems 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 2000 of the principal committees was as follows:

Management Committee

Appointed by the Committee of Vice-Chancellors and Principals (CVCP)

Professor Sir Graeme Davies (Chairman), Professor Sir Martin Harris, Mr 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)

Professor 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, Mr 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, Mr M S Potts

Advisory Committee

Appointed by the Committee of Vice-Chancellors and Principals

A D Linfoot (Chairman), D Anderson-Evans, D W Sims

Appointed by the Association of University Teachers

Dr D Green, Mr C E Banister, Ms J McAdoo

Joint Negotiating Committee

Independent Chairman

Sir Kenneth Berrill

Appointed by the Committee of Vice-Chancellors and Principals

D Anderson-Evans, Dr S G Fleet, B Lillis, A D Linfoot, I G Thompson

Appointed by the Association of University Teachers

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

MANAGEMENT COMMITTEE

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

Committee members

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

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 the 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. The CVCP, 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 itself 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 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 2000 there were 290 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 150 other institutions.

Changes in institutions participating occurred as follows:

New participating institutions

- Assessment and Qualifications Alliance*
- Eduserv
- Freshwater Biological Association
- Higher Education Funding Council for England*
- Hull University Union*
- Institute for Public Policy Research*
- Kingston University*
- Learning from Experience Trust
- London Mathematical Society
- London School of Jewish Studies
- NYU in London*
- Oxford Cambridge & RSA Examinations (OCR)*
- Royal Academy of Dancing*
- Royal College of Music*
- Standing Conference of Principals Ltd (SCOP)
- Universities Council for the Education of Teachers
- University of Abertay Dundee*
- University of Lincolnshire and Humberside*

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

Institutions which ceased to participate

Eastman Dental Institute
University College London - Royal Free Campus

Expansion of USS

Recommendation 51 of the Dearing Committee stated:

"We recommend to the Government, institutions and the representative bodies of higher education, that, over the long term, the superannuation arrangements for academic staff should be harmonised by directing all new entrants to the Universities Superannuation Scheme."

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 are ongoing with a number of other institutions.



USS staff at the AUA Conference stand.
Diane Brown, Julie Upton, David Stevens, Bernie Steventon and Jeanette Stevens.

In seeking to promote the existence of USS the committee has 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. To this end, an exhibition stand was taken by USS Ltd at the annual conference of the Association of University Administrators (AUA) in Nottingham at the end of March 2000, and the officers have been attending 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 12,567 new members joined the scheme and at 31 March 2000 the total membership, including pensioners and those entitled to deferred benefits, was 158,510 compared with 149,160 a year earlier. Further details of the changes in membership during the year are contained in the section "Membership Statistics" on page 36 and over the five years ended 31 March 2000 in the Summary on page 62.

The proportion of eligible new employees choosing not to join USS was 18%, down from 21% 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 very 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 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.

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 2000, nineteen deeds of amendment. Five deeds of amendment were executed during the year. The fifteenth deed was executed on 22 June 1999 and extended the definition of eligible child and clarified when previous service qualified for ill-health retirement on transfer into USS. The sixteenth deed was also executed on 22 June 1999 and introduced new conditions to maintain salary levels for those over age 55 if salaries were reduced. The seventeenth deed was executed on 10 December 1999 and provided for subsidiary companies of institutions to be admitted to USS under certain circumstances whether they were profit-making or not. The eighteenth deed was also executed on 10 December 1999 and was one of the most significant changes in the USS rules. It extended the eligibility criteria for USS membership to all employees at higher education institutions in the UK whether non-academic, academic or academic related. The nineteenth deed was executed on 25 February 2000 and enabled members with money purchase AVCs to defer settlement of those benefits when they retired from the scheme. The twentieth deed of amendment was executed shortly after the period covered by this report and introduced a number of benefit improvements. More details of the above rule amendments are given in the report of the joint negotiating committee on page 29.

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). As reported last year, USS pensions were increased by 3.2% on 21 April 1999.

On 21 April 2000 pensions which satisfied certain qualifying conditions and began before 26 April 1999 were increased by 2.1% with smaller increases applying for pensions which began after that date. Deferred pensions and deferred lump sums were increased by the same rates. The increase provided



Mike McGreal, Section Head Pensions Payroll.

under the Pensions (Increase) Act would have been 1.1% for a full year increase. As in 1997, however, the management committee decided that USS pensions would be increased by an amount greater than the figure provided under the Act.

That part of the pension payable from the main section of USS which represents the post 1988 GMP was increased by 1.1% from April 2000. That part which represents the pre 1988 GMP is generally not increased by USS as increases are paid by the Department of Social Security (DSS). 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.



Shelagh O'Grady, Head of Contribution Accounting and Ian Sherlock, Financial Systems Accountant.

Contribution rates

The rates of contributions payable by members and institutions between 1 April 1999 and 31 March 2000 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

A triennial actuarial valuation of USS was carried out as at 31 March 1999. The principal results are that, despite lower interest rates which have made pensions more expensive, the scheme remains in surplus and the contribution rate payable to USS by institutions has been maintained at 14% of pensionable salaries.

Consultation meetings involving the directors and officers of USS Ltd and vice-chancellors and finance directors of university and other institutions were held before the valuation was finalised. The main features of the actuarial valuation were discussed at the meeting for representatives of USS institutions which was held in London on 10 December 1999. The full text of the actuary's report to the management committee has been printed and copies were sent to all institutions in April 2000. It is also available on the USS Ltd website.

No changes were made to the funding objective or the purpose of the valuation. However, on the recommendation of the actuary, it has been agreed to change the method of valuation to a market value approach. The previous valuation method involved in particular a projection of future dividend payments from equities. This is no longer appropriate following the withdrawal of the dividend tax credit by the Chancellor in 1997, and the trend for companies to provide shareholder value through share buy-backs rather than dividend payments. Hence the move was made to a market value method, under which the assets are taken into account at market value and the liabilities are valued using assumptions in line with financial conditions at the date of

the valuation. 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.

In considering the other assumptions, the actuary reduced the mortality assumptions for deaths in retirement and increased the allowance for ill-health retirements to reflect the experience since the last valuation.

The result of the actuarial calculations is that the scheme has moved from having a past service surplus of assets above liabilities at 31 March 1996 of £855 million to a surplus of £1,443 million at 31 March 1999. This surplus represents 8% of the past service liabilities of the scheme. There is a surplus of £76 million attributable to the supplementary section leaving a past service surplus of £1,367 million in the main section.

The institution contribution rate required for the future service benefits alone is 16.3% of salaries. Based on the method and assumptions used it was agreed that the institutions contribution rate would remain at 14% of salaries. Applying this reduction in contribution rate over the average remaining working lifetime of the current active members will utilise £561 million of the past service surplus leaving a residual past service surplus of £882 million to be carried forward. Of this amount a further £201 million has been utilised in providing the benefit improvements which are set out in the report of the joint negotiating committee on page 29.

Additionally the actuary has carried out an actuarial review as at 31 March 2000 which examines the progress of the scheme since the last valuation. A statement by the actuary on the review is shown on page 58. It draws the conclusion that the overall financial position of the scheme is expected to have improved since the 1999 valuation and recommends that no change should be made in the institutions' contribution rate.

Accounting matters

The accounts for Universities Superannuation Scheme and Universities Superannuation Scheme Limited (the trustee company) are set out later in this booklet.

The accounts of the trustee company show an increase in operating costs from £15.1 million in 1998/99 to £20.8 million in 1999/2000, an increase of 37%. As reported below and in the report of the investment committee, 1999 was a year of exceptional investment performance for the fund. Two managers in particular excelled adding over £700 million to the fund through outperformance of the fund's benchmark. The increase in the operating costs is due to the consequent performance-related fees and bonuses payable to these managers. 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 2000 are as follows:

- (a) 25.8% is administered internally on the advice of HSBC James Capel Quantitative Techniques on a basis to track the FT-SE-A All-Share Index of UK equities (with Chase Manhattan Bank as custodian);
- (b) 49.9% is managed in-house by the trustee company's London Investment Office (with Chase Manhattan Bank as custodian). Of this 43% are securities and 7% are property assets;
- (c) 7.8% is managed by Baillie Gifford (with Deutsche Bank as custodian);
7.7% is managed by Capital International (with Deutsche Bank as custodian);
7.6% is managed by Schroder Investment Management (with Deutsche Bank as custodian);
- (d) 1.2% 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.

Deutsche Bank became custodian for the externally managed assets in June 1999 following the bank's purchase of Bankers Trust Company.

The year to 31 December 1999 was another very good year for pension fund performance and an excellent year for the fund. The fund's performance for the year was comfortably ahead of its target, the 40th percentile of the WM50, and over the last five years ranks in 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 fund draw up and maintain a statement of investment principles. This statement must lay down the investment objectives of the pension fund and explain why these objectives are suitable for the particular circumstances of the fund. 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. The statement has been amended from last year to reflect 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 and to extend the fund's ability to participate in stock lending.

The paragraphs on socially responsible investment have been simplified from the previous year. A more detailed statement on this issue, which may be amended from time to time, is published on the USS Ltd website.

Corporate governance

In September 1999 the Institute of Chartered Accountants in England and Wales published guidance on the implementation of the internal control requirements of the Combined Code on Corporate Governance. The guidance, *Internal Control: Guidance for Directors on the Combined Code*, has the support and endorsement of the London Stock Exchange. The guidance is primarily about the adoption of a risk based approach to establishing a system of internal control and reviewing its effectiveness. Although aimed primarily at companies listed on the stock exchange it makes sound business sense for all organisations to manage risk effectively and to embed internal control in the business processes by which a company pursues its objectives. Accordingly the management committee has decided that USS Ltd should comply with the guidance in so far as this is appropriate for a trustee company of a pension scheme.

The directors 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 mis-statement 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. The committee also reviews the customer service standards proposed by the officers and monitors performance against these standards. 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 accounts 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 to implement the guidance such that they can fully comply with it for the year ending 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 at each meeting of the finance & general purposes committee and are discussed at meetings of the institutions' finance officers' group, a liaison committee which met twice during the year.

During the year a considerable amount of work has gone into replacing the entire pensions administration software with a more modern system, the Universal Pensions Management system from Comino Plc (formerly known as Image Systems Europe). This system will provide faster and more accurate processing of pensions administration tasks and will integrate with both the accounting and pensions payroll systems. Implementation of the system was completed in August 2000 and the whole exercise spanning over two years was the largest ever undertaken by the company. It required a massive commitment of resources over that period and at one time or another has involved almost half of the workforce directly in the development, testing, checking or recording. While this was going on, normal service had to be maintained and this was possible only because of the extra efforts made by all of the staff, whether involved directly on the project or not.



Karen Cullen and Ann Varty - pensions payroll section.

Three administration seminars were held during the year at the Liverpool office and two pension workshops at Surrey and Lancaster universities 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 institutions' advisory panels met three times during the year. They comprise administrators who regularly deal with USS issues and discussed a wide range of topics providing the trustee company with helpful advice and comments about publications, new forms and the customer satisfaction survey carried out in October 1999. The annual meeting with institutions' representatives took place in London in December 1999 and a full report of the proceedings was made available on our website.

The trustee company reviews its activities regularly in conjunction with its advisers in order to ensure that the scheme remains fully compliant with all relevant legislation and other requirements. During the year it was necessary for the trustee company, the actuary and the auditor to inform the Occupational Pensions Regulatory Authority (OPRA) of late payment of contributions to the scheme by institutions on nine occasions. 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. OPRA has confirmed that it will be taking no action in respect of any of the cases reported.

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. These arrangements must provide for a specified

officer of the scheme, 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. As reported previously the management committee has decided that the first decision in this process should be taken by the chief pensions manager and that the advisory committee, augmented for this purpose alone by two members of the management committee (one nominated by the CVCP and the other by the AUT) should take the second decision. This internal dispute resolution procedure was used eight times during the year in respect of complaints brought against the trustee company. Four of these were subsequently considered by the advisory committee, in its enlarged second-stage dispute resolution capacity and the stage



Chief Pensions Manager, Stewart Neil and Mrs Pheris Humphrey, SOAS at the USS Institutions' meeting on 10 December 1999.

have a personal pension or be participating in SERPS. 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.

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 Pensions 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. 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 18 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.

Year 2000

All year 2000 projects were completed on time and staff attended both Liverpool and London offices during the New Year holiday period to ensure that all systems were working satisfactorily. No problems were experienced and all systems were available to staff on 4 January 2000. The trouble-free roll-over into the year 2000 was as a result of two years work by the year 2000 project team during which time all systems were tested and non-compliant hardware and software replaced.

Much work on year 2000 issues was also carried out by the managers of our property portfolio and no millennium problems were experienced at any USS properties.

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

Graeme J 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 1999/2000

- Investment returns continued to be strongly positive in the year to 31 December 1999. The return for the total fund was 25.9%, far in excess of average earnings growth and price inflation of 6.1% and 1.8% respectively and the 21.6% average return achieved by the WM50 cum property universe.
- The continuation of an exceptionally positive investment climate is reflected in the longer term results. The 10 year return for the fund was 12.8% per annum, ahead of the WM50 average pension fund return of 12.4% per annum and, again, well ahead of growth in average earnings of 5.2% per annum and retail prices of 3.5% per annum over the same period.
- Including net cash inflow and capital appreciation, the assets of the fund reached £21.8 billion on 31 March 2000 compared with £18.7 billion a year earlier.
- At the Institutions' meeting in December 1999, the management committee pledged to commit more resources to an active engagement policy for socially responsible investment. One adviser has now been appointed and he started to work with us in August 2000. A second appointment is expected to be made shortly.
- Direct contact was made with about 1,500 companies in the year to 31 March 2000 to assess their financial and environmental performance.
- The statement of investment principles, which determines the way in which the investments are managed, was updated and 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 2000 were Schroder Investment Management, Baillie Gifford & Co and Capital International. All these managers have a 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.



Clive Edwards, Deputy Chief Investment Officer and Sacha Sadan, Deputy UK Equities Manager in the London Investment Office.

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 2000, along with the comparative figures for the preceding year, is set out in the table on page 18. The investments are stated at market value and details of the changes in value are summarised in Note 8 to the USS accounts on page 53.

CORPORATE GOVERNANCE

The committee attaches great importance to the maintenance of good standards of corporate governance and environmental responsibility by companies in which investments are held. The London Investment Office makes arrangements for USS's voting rights to be exercised on every occasion as regards UK companies and is active in monitoring the performance of companies' standards. Members of the London Investment Office made about 1,500 direct company contacts during 1999 to enable them to understand more fully those companies from a number of angles, including financial and environmental. It is through these meetings that we aim to influence company managements on issues of corporate governance. It is time consuming but, in the long run, we believe it will be beneficial for the fund and therefore for the pensioners and members of USS as companies place greater emphasis on corporate governance and thereby enhance their standing amongst consumers and investors.

TOTAL INVESTMENTS OF THE FUND

Type of Investment	Fixed Interest £m	Index-Linked £m	Equities £m	Properties £m	Cash and Equivalent £m	31 March 2000 Total £m	Total %	31 March 1999 Total £m
Investments under the direct control of USS Ltd								
Quoted securities								
UK	—	20.5	4,568.2	—	—	4,588.7	21.0	4,340.5
Overseas	669.8	—	3,829.6	—	—	4,499.4	20.6	2,889.3
Property								
UK	—	—	—	1,516.2	—	1,516.2	6.9	1,174.5
Cash/stockbroker balances								
UK	—	—	—	—	70.9	70.9	0.3	246.4
Overseas	—	—	—	—	226.0	226.0	1.0	113.6
Sub-total	669.8	20.5	8,397.8	1,516.2	296.9	10,901.2	49.9	8,764.3
Investments managed internally on the basis of external advice								
Index fund								
UK	—	—	5,649.6	—	(25.9)	5,623.7	25.7	5,194.8
Overseas	—	—	—	—	—	—	—	—
Sub-total	—	—	5,649.6	—	(25.9)	5,623.7	25.7	5,194.8
Investments managed externally								
Baillie Gifford								
UK	132.7	75.9	832.0	—	83.8	1,124.4	5.1	1,085.7
Overseas	81.7	—	486.7	—	15.0	583.4	2.7	439.9
Capital International								
UK	153.6	49.9	938.0	—	9.7	1,151.2	5.3	1,065.8
Overseas	77.4	—	467.9	—	—	545.3	2.5	390.4
Schroder								
UK	149.3	86.0	868.0	—	33.3	1,136.6	5.2	1,091.8
Overseas	87.9	—	439.4	—	0.4	527.7	2.4	387.8
Transition portfolios								
UK	—	—	—	—	—	—	—	0.1
Overseas	—	—	—	—	—	—	—	2.0
Life assurance policies								
UK	62.6	2.0	121.9	20.2	6.3	213.0	1.0	233.7
Overseas	—	—	37.0	—	—	37.0	0.2	30.1
Sub-total	745.2	213.8	4,190.9	20.2	148.5	5,318.6	24.4	4,727.3
Total investments								
UK	498.2	234.3	12,977.7	1,536.4	178.1	15,424.7	70.6	14,433.3
Overseas	916.8	—	5,260.6	—	241.4	6,418.8	29.4	4,253.1
Total	1,415.0	234.3	18,238.3	1,536.4	419.5	21,843.5	100.0	18,686.4
Percentage at 31 March 2000								
UK	2.3	1.1	59.4	7.0	0.8	70.6		
Overseas	4.2	—	24.1	—	1.1	29.4		
Total percentage	6.5	1.1	83.5	7.0	1.9	100.0		
Total percentage at 31 March 1999								
	8.0	1.2	81.5	6.4	2.9			

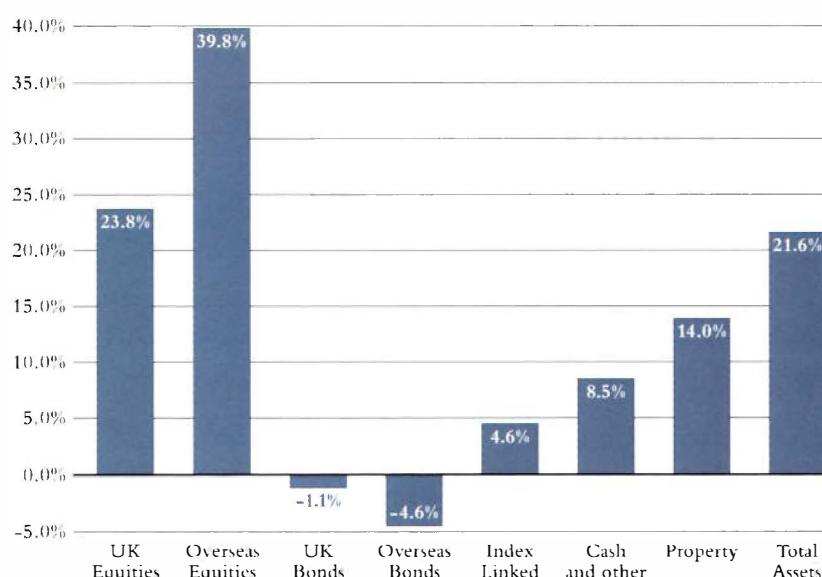
WM50 PENSION FUND SURVEY FOR 1999

The fund participates in the above survey of pension fund performance. In 1999 the survey covered the largest 50 funds with a combined value of £297 billion representing nearly 60% of assets in the WM All Funds Universe.

Average pension fund results for 1999

Investment returns reported in the 1999 survey showed that the average WM50 pension fund performed well with most asset classes showing strong returns.

Total investment returns for 1999 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 WM50 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 index 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.

Longer term results

Over the ten years to 31 December 1999, the total fund returned 12.8% per annum against the average for all funds in the WM All Funds Universe survey of 12.5%. These figures compare with the average earnings increases of 5.2% per annum and retail price index growth of 3.5% per annum. Over this period therefore the fund's real return comfortably exceeded the assumptions used in the actuarial valuation of the scheme.

Against the WM50 USS outperformed the average fund return of 12.4%.

Performance over the five years to 31 December 1999

Taking the five years 1995 to 1999 together, the following annualised returns were achieved:

	Annualised Return
	%
London Investment Office	19.1
Baillie Gifford	17.9
Schroder Investment Management	15.7

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

Over the five-year period the total fund including property returned 16.6% against the WM50 average fund performance of 15.8% ranking it in the top third of funds in the survey.

Performance in 1999

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
	%	
London Investment Office	30.8	4
Capital International	28.5	12
Baillie Gifford	21.1	58
Schroder Investment Management	18.2	78

Excluding property, the average fund in the WM50 Universe returned 22.1%.

The total fund including property returned 25.9% against the WM50 average fund performance of 21.6%, ranking it in the 16th percentile.

INVESTMENT REPORT

The world economy continued to grow at a satisfactory rate in 1999. The main driver of growth continued to be the United States which grew in excess of 5% for the year. European economies however are now showing a sustained recovery, albeit from a lower base. Japan which showed negative growth in 1998 has rebounded which is not surprising given the amount of monetary and fiscal stimulus pumped into that economy. The smaller emerging economies are also showing extremely good growth trends and we expect this position to continue, especially given the more synchronised nature of economic growth now occurring.

The relatively rapid pace of economic growth and its synchronised nature has had some impact on commodity prices which are rising at some 8% in sterling terms year on year with a worrying 80% increase in the price of oil. This commodity price increase has been reflected in producer prices which have tended to accelerate and, to some extent, in consumer prices which are moving ahead although at a much lower rate of increase.

We are monitoring this trend in prices extremely closely as it forms a crucial plank in our investment thinking. If consumer price increases were to become entrenched and accelerate from this level, it is likely that securities and bond markets would have a substantial setback from their current levels.

In the currency markets the dollar has continued to perform well against European currencies, especially the euro. The Japanese yen has been strongest of all appreciating against all major currencies. The weakness in the euro was not unexpected given the difficulties in running a

coherent monetary policy to embrace the different economic demands placed upon it by the eleven countries within the euro zone. Although we do not expect any significant recovery in the euro from this level, we believe the worst of its decline has now been seen. Additionally, we would expect sterling to depreciate modestly against both the yen and the dollar from its current level.

Short term interest rates have been increasing steadily, and although we believe that they may well have peaked in the United Kingdom, we believe that rates in the United States still have further to rise. The European economies are at an earlier stage of recovery than either the UK or the US economies and here interest rates could still be some way off their peak. In Japan, extremely mixed signals are making interest rate policy difficult to predict but we would not be surprised if the authorities started to raise short term interest rates. On balance current interest rate policy is not particularly favourable for international equity markets.

The long term positive factors of increase in pension provision and a move towards funded pensions present a favourable environment for equities over the longer term, even if we see a medium term setback because of a cyclical increase in consumer prices. We believe that the majority of this benefit will be seen in the European markets which have the additional impetus of corporate and economic reorganisation. The fund has already increased its weighting towards UK equities by the action we took last year in separating out the UK index fund from the balanced managers portfolios. We are convinced this is the correct long term investment stance for the fund because equities are likely to outperform other asset classes over the longer term.

Additionally, we have over-weighted the property component of the fund against its benchmark in the belief that the high running yield and demand for high quality space make this an attractive asset class. It also provides some insurance against a poorer year for equities which performed above our expectations during 1999.

The performance of the major markets for the year to 31 March 2000 is shown below:

Equity and fixed interest market total returns for the year to 31 March 2000

	Equities		Fixed Interest	
	Local Currency	Sterling	Local Currency	Sterling
UK	5.5	5.5	1.3	1.3
Germany	47.3	32.2	(0.8)	(10.7)
France	47.4	32.2	(1.4)	(11.3)
USA	18.4	19.8	2.6	3.8
Japan	29.2	50.9	1.2	20.2
Pacific ex-Japan	23.7	23.6	—	—
UK Index-linked	—	—	2.5	2.5
UK Property	15.3	15.3	—	—

Source:

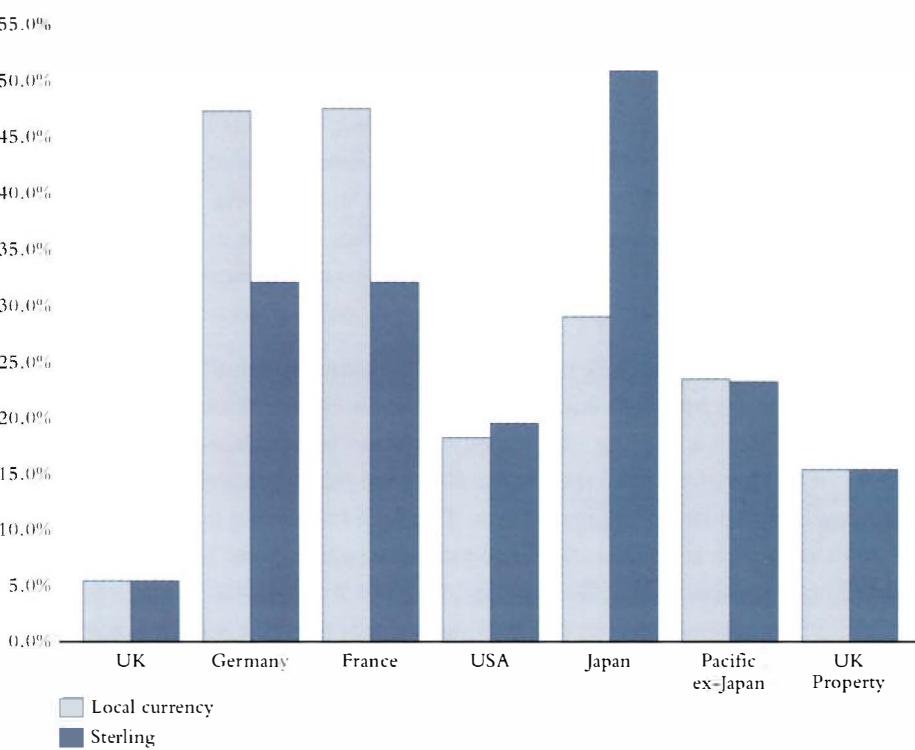
FT Actuaries World Indices

Lombard Odier Company Bond Indices

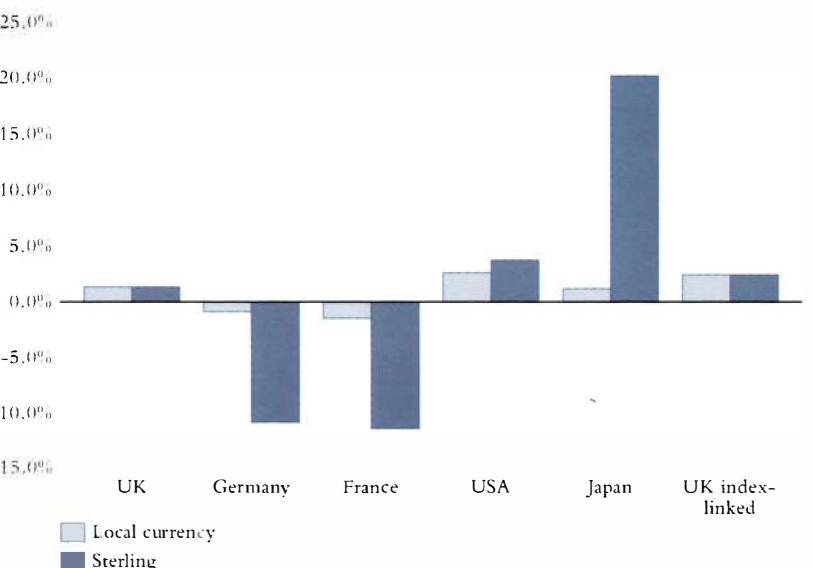
Investment Property Databank

Equity and fixed interest market total returns for the year to 31 March 2000

Equities



Fixed Interest



PROPERTY

The investment performance target for 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. The benchmark return for 1999 was 14.9% while the IPD All Fund Universe produced a return of 15.2%. These figures benefited from better than anticipated economic and rental growth. Property has now returned in excess

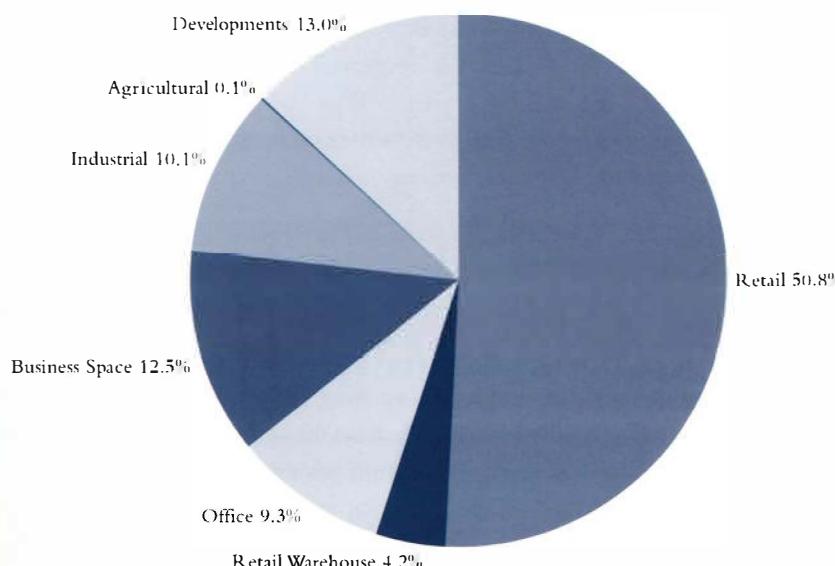
of 10% pa for the past four years and provided the economy and inflation remain under control, a healthy level of performance is forecast to continue for the next few years.

The market is nevertheless undergoing considerable change. The retail market stands out in this respect as mainstream retailers in the UK continue to lose market share at the expense of discount stores and newer brands. At the property level, prime and out of town centres are still in demand but more secondary premises are expected to suffer in the immediate future. Offices are at last showing good rental growth, but outside the south east the provincial market remains weak while the industrial sector has performed strongly on the back of relatively high yields rather than consistent rental growth. A further 0.5% increase in stamp duty in the 2000 Budget (bringing the total duty to 4%) has not helped what is an inherently illiquid market and, not surprisingly perhaps against this background, property has remained out of favour with pension funds. Even property investment companies are finding it hard to continue as passive investors and are having to become more focussed and to concentrate on particular individual strengths. Overall the market remains robust and attractive but stock selection remains all-important.

The USS property portfolio underperformed its benchmark in 1999 by 1.1% mainly due to the adverse impact of unfinished developments but it has still outperformed its benchmark over the past five and ten year periods. The portfolio was independently valued by Colliers Erdman Lewis at 31 March 2000 at £1,516.2 million and a breakdown by type and geographical location is shown below:

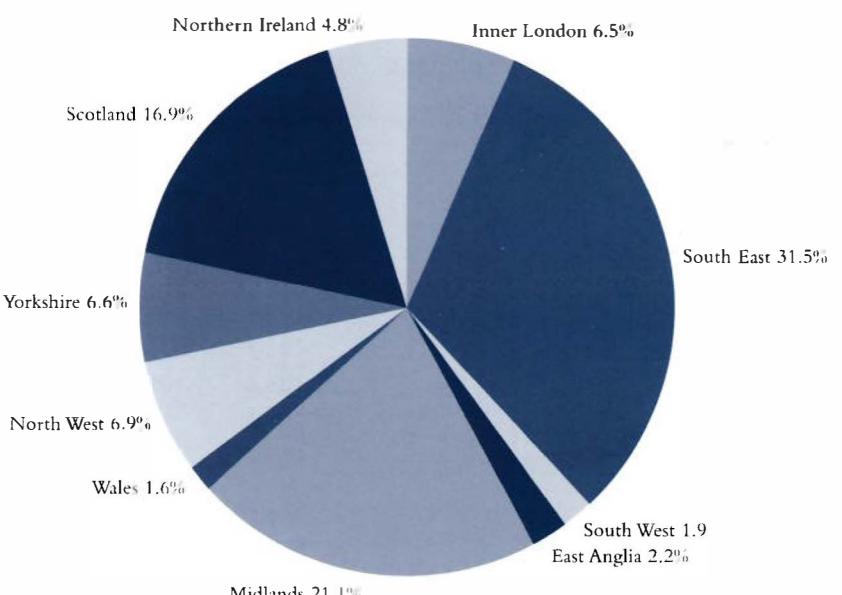
USS property portfolio – type of investment

	Freehold £m	Leasehold £m	Total £m	%
Retail	724.0	46.9	770.9	50.8
Retail Warehouse	63.5	–	63.5	4.2
Office	111.2	30.5	141.7	9.3
Business space	182.1	7.0	189.1	12.5
Industrial	125.6	26.8	152.4	10.1
Agricultural	1.2	–	1.2	0.1
Developments	190.4	7.0	197.4	13.0
TOTAL	1,398.0	118.2	1,516.2	100.0



USS property portfolio - geographical location

	£m	%
Inner London	99.2	6.5
South East	477.0	31.5
South West	29.1	1.9
East Anglia	34.0	2.2
Midlands	319.9	21.1
Wales	25.0	1.6
North West	104.2	6.9
Yorkshire	99.7	6.6
Scotland	255.6	16.9
Northern Ireland	72.5	4.8
TOTAL	1,516.2	100.0



Net income for the year to 31 March 2000 rose from £60.5 million to £62.7 million, mainly as a result of rent review settlements.

NEW INVESTMENT

The fund continued its strategy of increasing its exposure to large assets which we believe offer prospects of better returns through long term active asset management, while making selective disposals of underperforming assets particularly in the office sector.

The largest purchase was of the Gyle Shopping Centre (£186.7 million), a modern out of town shopping centre west of Edinburgh city centre. This 300,000 sq ft covered centre has large Safeway and Marks & Spencer stores and a planning application to extend the centre has been submitted.

The fund also acquired 150 acres of land at Brooklands, Surrey for £4.9 million. The site, part of which includes the former Brooklands racing circuit, is zoned as Green Belt but has long term

development potential. Whilst quality industrial stock remained generally in short supply and fully priced, the fund was successful in acquiring a newly completed 53,000 sq ft estate in Warrington for £3.46 million, reflecting an initial yield of 7.6%.

Other acquisitions involved properties adjacent to the fund's existing ownership and included two retail units in Cheltenham (£0.5 million) close to Beechwood Shopping Centre, a small office building (£0.9 million) adjoining Holland House in the City of London, a retail unit (£2.8 million) in Foregate Street, Chester and a vacant office building (£0.2 million) fronting Aylesbury Vale Industrial Estate.

The fund added to its significant freehold investment at Stockley Park near Heathrow with the buying in of a long leasehold interest for £12.6 million. A comprehensive refurbishment is to be undertaken with a pre-letting to a major US telecommunications company at a market leading rent.

The fund also contracted to fund the first phase of Cambourne Business Park to the west of Cambridge. One of the three buildings has been pre-let to Regus, the serviced office operator, and the scheme is an integral part of a comprehensive new settlement of 3,300 homes together with shops, a hotel, golf course and leisure centre.

Substantial progress was made on the fund's committed development programme during the year. The Midsummer Place shopping centre development at Milton Keynes is anchored by Debenhams and, despite the difficult retail market, has experienced strong tenant demand with international fashion names such as Gap, Zara and Mango as well as national retailers such as New Look, Arcadia and Virgin taking space. The scheme, which will have a value of around £180 million, will be substantially let when it opens to the public in September 2000.

After a slow start, the fund's first factory outlet development at Whiteley Village in Hampshire, is at last enjoying strong tenant interest and better performance is anticipated in 2000 from this scheme.

A detailed planning application has been submitted for the Grand Arcade Shopping Scheme in central Cambridge, which will provide a new store for the John Lewis Partnership. The local authority has resolved to grant consent and we await a decision by the Department of the Environment, Transport and the Regions (DETR) as to whether a public inquiry is needed. The fund has already acquired two parts of the development site by private negotiation for a total cost of £4.15 million.

The fund also extended its significant land holding west of Briggate, Leeds, where it purchased two further properties for £10.2 million. Agreements have been signed for Lend Lease to act as the fund's development managers for the entire site and to progress a comprehensive redevelopment of 300,000 sq ft of prime retail and office accommodation at the very heart of this city. In consultation with the city planners, a planning application was submitted in June 2000 and construction should commence in Spring 2001.

The 300,000 sq ft industrial/warehousing scheme at Stratus Park, Milton Keynes which was funded speculatively by the fund, was let in its entirety upon completion to Electrolux.

DISPOSALS

Disposals totalling £52.3 million were completed during the year including a small open shopping scheme in Caterham (£11.5 million), two linked office buildings in "mid-town" 100 Fetter Lane and 12 Norwich Street, London EC4 (£31.5 million) following a successful refurbishment programme and an office building in Chelmsford let to Royal Insurance Plc (£8.7 million). Further selective disposals are planned with the aim of reducing the fund's exposure to the retail sector following the purchase of The Gyle, Edinburgh.

NET NEW INVESTMENT

An analysis of the net new investment undertaken during the year to 31 March 2000, along with the comparative figures for the preceding year, is set out in the table below:

	2000		1999	
	£m	%	£m	%
Securities	483.7	80.8	661.9	117.4
Property	280.7	46.9	190.9	33.9
Life assurance policies	(52.4)	(8.7)	(52.6)	(9.3)
Cash deposits	(46.5)	(7.7)	(183.5)	(32.6)
Stockbroker balances	(67.5)	(11.3)	(53.1)	(9.4)
	598.0	100.0	563.6	100.0

An analysis of the net new investment in securities for the year to 31 March 2000, along with comparative figures for the preceding year, is set out in the table below:

	2000		1999	
	£m	%	£m	%
UK Equities	324.7	67.1	881.7	133.2
Overseas Equities	178.5	36.9	(171.4)	(25.9)
Index-linked	21.2	4.4	(22.0)	(3.3)
UK Fixed Interest	(249.9)	(51.7)	(8.2)	(1.2)
Overseas Fixed Interest	209.2	43.3	(18.2)	(2.8)
	483.7	100.0	661.9	100.0

INVESTMENT IN LIFE ASSURANCE POLICIES

The portfolio distribution as at 31 March 2000, along with the comparative figures for the preceding year, is set out below:

	2000		1999	
	£m	%	£m	%
UK Equities	121.9	48.8	130.6	49.5
Overseas Equities	37.0	14.8	30.1	11.4
Index-linked	2.0	0.8	2.4	0.9
UK Fixed Interest	62.6	25.0	65.9	25.0
Property	20.2	8.1	16.1	6.1
Cash	6.3	2.5	18.7	7.1
	250.0	100.0	263.8	100.0

DISTRIBUTION OF ASSETS

The portfolio distribution as at 31 March 2000, along with the comparative figures for the preceding year, is set out below:

	2000		1999	
	£m	%	£m	%
UK fixed interest				
British Government				
Conventional	332.7		599.8	
Index-linked	232.3		216.2	
Other debentures & loan stocks	102.8		91.1	
	667.8	3.1	907.1	4.9
Overseas fixed interest				
North America	487.3		364.0	
Europe	96.2		135.1	
Japan	227.5		147.8	
Pacific	105.8		95.7	
	916.8	4.2	742.6	4.0
Total fixed interest	1,584.6	7.3	1,649.7	9.0
UK equities				
Resources	1,407.4		1,140.3	
General industrials	796.4		1,053.9	
Consumer goods	1,836.0		1,985.3	
Services	4,906.8		3,828.7	
Utilities	458.8		490.8	
Information technology	764.8			
Financials	2,548.3		2,887.7	
Collective investment schemes	112.7		231.2	
Investment trusts	24.6		85.5	
	12,855.8	59.5	11,703.4	63.5
Overseas equities				
America	1,160.6		850.2	
Japan	973.6		466.4	
Europe	2,110.0		1,596.2	
Pacific	840.0		393.7	
Other	139.4		70.2	
	5,223.6	24.2	3,376.7	18.3
Total equities	18,079.4	83.7	15,080.1	81.9
Total securities	19,664.0	91.1	16,729.8	90.8
Property	1,516.2	7.0	1,174.5	6.4
Cash deposits	454.4	2.1	492.0	2.7
Stockbroker balances	(41.1)	(0.2)	26.4	0.1
Total investments (excluding life assurance policies)	21,593.5	100.0	18,422.7	100.0

LARGEST EQUITY HOLDINGS

A list of the fund's largest twenty equity holdings as at 31 March 2000, together with the percentage of the total fund (excluding life assurance policies), is shown below:

		Value £m	%
1	Vodafone Airtouch	1,630.0	7.5
2	BP Amoco	717.1	3.3
3	BT	582.0	2.7
4	Glaxo Wellcome	459.0	2.1
5	Shell Transport	413.4	1.9
6	HSBC	388.7	1.8
7	AstraZeneca	343.0	1.6
8	SmithKline Beecham	303.0	1.4
9	Lloyds TSB	296.6	1.4
10	Cable & Wireless	241.2	1.1
11	Nokia	216.6	1.0
12	Royal Bank of Scotland	209.3	1.0
13	Prudential	174.7	0.8
14	Barclays	174.2	0.8
15	Reuters	150.8	0.7
16	Ericsson	146.9	0.7
17	Colt Telecom	142.3	0.7
18	Marconi	137.3	0.6
19	British Sky Broadcasting	133.3	0.6
20	BG Group	125.1	0.6
		6,984.5	32.3

A list of all the fund's holdings is available on our website <http://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.

There were no changes to the members of the committee during the year and it met on four occasions in that period. Rule changes were considered by the committee during the year which resulted in five amending deeds being executed, from the fifteenth to the nineteenth deeds of amendment. The most significant changes which these deeds introduced were:

- The fifteenth deed of amendment clarified the extent to which employment by a predecessor employer under a different pension scheme counts after a transfer of functions or undertaking as qualifying service for ill-health retirement purposes. It also extended the definition of "eligible child" to any dependant accepted by the member as a child of his or her family, though not legally his or her child or stepchild.
- The sixteenth deed of amendment introduced new conditions for members aged 55 or over who face a reduction in salary, to maintain their existing salary level for USS purposes.
- The seventeenth deed of amendment provided for the inclusion of subsidiary companies controlled or owned by one or more universities or higher education institutions, as long as their operations are conducted for the benefit of those universities or institutions. It is no longer a requirement that the subsidiary companies should be non-profit making.
- Extended eligibility conditions were contained within the eighteenth deed of amendment. This is one of the most significant events in the history of USS. It extends the eligibility criteria to all universities or higher education institutions within the United Kingdom and permits universities and institutions to designate non-academic as well as academic and academic related employments as pensionable in USS.
- The purchase of benefits on retiring from USS with the proceeds from a member's money purchase AVC fund can be deferred as a result of the execution of the nineteenth deed of amendment.

The committee also discussed and consented to the following enhancements in benefits for which funding council approval was obtained after the year's end:

- 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;
- increase of lump sum death in service benefit from 2½ to 3 times salary.

The pensionability of those in "irregular" employment which has featured in previous reports from the committee remains under consideration. Possible solutions are currently the subject of consultations with interested parties within higher education and it is hoped that agreement can be reached prior to the implementation of stakeholder pensions in April 2001.

Signed on behalf of the joint negotiating committee

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.

Three meetings were held during the year. With effect from the meeting on 22 September 1999 Mr C E Banister was appointed to take Dr P Hudson's place on the committee.

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 reduction in a spouse's pension as a result of the age difference between the spouse and the deceased member;
- one case relating to full commutation of pension on the grounds of serious ill-health;
- one case relating to the payment of a dependant's pension; and
- five cases relating to the payment of pensions on the grounds of ill-health retirement.

It was not necessary for the committee to meet during the year to consider the decisions given by the chief pensions manager at stage one of the internal dispute resolution procedure.

Signed on behalf of the advisory committee

A D Linfoot
Chairman

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 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 MFR 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	1,375	438	100
4100	Aston	439	309	91
4300	Bath	887	309	44
6600	Belfast	1,605	441	102
1000	Birmingham	2,238	836	169
4200	Bradford	756	340	76
1100	Bristol	2,067	539	108
4400	Brunel	602	257	48
7035	Buckingham	88	30	6
1200	Cambridge (University)	3,650	795	232
1202	Christ's	14	4	3
1204	Churchill	27	5	1
1206	Clare	9	4	—
1208	Clare Hall	7	—	1
1210	Corpus Christi	14	3	2
1212	Darwin	4	3	1
1214	Downing	18	10	2
1216	Emmanuel	16	3	2
1218	Fitzwilliam	8	5	1
1220	Girton	30	11	1
1222	Gonville & Caius	32	8	4
1224	Hughes Hall	—	2	1
1226	Jesus	20	5	1
1228	King's	29	5	1
1230	Lucy Cavendish	17	5	1
1232	Magdalene	13	2	2
1234	New Hall	25	10	—
1236	Newnham	21	18	3
1238	Pembroke	21	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	15	3	—
1242	Queens'	14	1	1
1245	Robinson	11	4	—
1246	St Catharine's	15	2	—
1255	St Edmund's	2	1	—
1250	St John's	36	5	2
1252	Selwyn	15	1	—
1254	Sidney Sussex	9	—	1
1258	Trinity	34	9	2
1260	Trinity Hall	16	2	2
1268	Wolfson	5	2	—
4700	City	722	265	71
7016	Cranfield	900	344	71
0700	Dundee	1,254	274	63
1300	Durham (University)	1,205	333	57
1301	St Chad's	2	—	—
1500	East Anglia	913	265	44
0200	Edinburgh	2,861	752	196
1700	Essex	629	142	38
1600	Exeter	803	392	66
0300	Glasgow	2,442	687	140
0800	Heriot-Watt	771	187	30
1800	Hull	844	343	83
3100	Keele	527	202	39
1900	Kent at Canterbury	667	267	31
2100	Lancaster	840	311	49
2000	Leeds	2,609	793	198
2200	Leicester	1,232	291	62
2300	Liverpool	1,772	540	143

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
2497	London (University)	456	565	151
2408	Birkbeck	435	124	27
2401	Goldsmiths' College	403	92	6
2480	Heythrop	12	1	—
2409	Imperial Coll of Science, Technology & Medicine	2,575	664	158
2440	Institute of Cancer Research	193	12	—
2465	Institute of Child Health (part of University College)	215	7	4
2403	Institute of Education	314	166	40
2474	Institute of Psychiatry (part of King's College)	244	10	6
2410	King's College London	2,129	665	154
2412	London School of Economics & Political Science	666	173	47
2434	London School of Hygiene & Tropical Medicine	385	60	25
2413	Queen Mary & Westfield College	1,085	463	98
2447	Royal Holloway and Bedford New College	532	214	30
2436	Royal Veterinary College	163	49	13
2428	St George's Hospital Medical School	330	53	16
2415	School of Oriental & African Studies	312	155	39
2416	School of Pharmacy	79	27	5
2417	University College	3,247	801	149
2419	Wye College	112	63	19
2484	London Business School	190	27	7
4600	Loughborough	1,126	336	102
2500	Manchester	2,823	931	202
5100	UMIST	947	371	58
1400	Newcastle-upon-Tyne	1,800	626	140
2600	Nottingham	2,109	532	108
8900	Open	2,123	432	88
2700	Oxford (University)	3,442	842	261
2701	All Souls	28	9	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:

UNIVERSITY INSTITUTIONS continued		MEMBERS	PENSIONERS	
No.	Name		Pensioner Members	Spouses, Dependants and Dependent Children
2702	Balliol	23	3	—
2703	Brasenose	10	4	2
2704	Christ Church	44	6	3
2705	Corpus Christi	14	6	2
2706	Exeter	14	2	3
2707	Hertford	13	3	1
2708	Jesus	17	5	—
2709	Keble	18	4	—
2710	Lady Margaret Hall	15	6	1
2734	Linacre	5	2	—
2711	Lincoln	15	4	2
2712	Magdalen	29	10	4
2735	Harris Manchester	12	3	—
2732	Mansfield	22	3	1
2713	Merton	23	8	2
2714	New College	34	7	5
2715	Nuffield	35	8	2
2716	Oriel	17	6	1
2717	Pembroke	12	5	1
2718	Queen's	23	7	—
2736	Regent's Park	1	—	—
2719	St Anne's	15	7	—
2720	St Antony's	14	7	2
2721	St Catherine's	20	8	1
2722	St Edmund Hall	9	1	1
2723	St Hilda's	21	7	2
2724	St Hugh's	19	5	—
2725	St John's	34	7	—
2726	St Peter's	15	4	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:

UNIVERSITY INSTITUTIONS continued		MEMBERS	PENSIONERS	
No.	Name		Pensioner Members	Spouses, Dependants and Dependent Children
2727	Somerville	16	7	-
7028	Templeton	29	13	2
2728	Trinity	11	2	-
2729	University	16	7	1
2730	Wadham	11	6	-
2733	Wolfson	12	5	-
2731	Worcester	12	7	1
2800	Reading	1,229	414	112
0400	St Andrews	668	193	50
4800	Salford	746	450	66
2900	Sheffield	2,184	590	114
3000	Southampton	2,069	481	95
0500	Stirling	711	153	36
0600	Strathclyde	1,338	453	127
4000	Surrey	1,130	316	55
3200	Sussex	869	326	56
6800	Ulster	1,368	272	62
3900	Wales (University)	58	21	4
3300	Aberystwyth	563	243	61
3400	Bangor	690	261	63
3500	College of Cardiff	1,441	535	138
3800	Lampeter	109	37	9
3600	Swansea	846	301	73
3700	University of Wales College of Medicine	536	95	29
5000	Warwick	1,433	275	54
5200	York	1,047	177	33
Old university institutions total		83,357	25,077	5,628

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
New universities admitted for limited membership only				
8160	Abertay		1	-
8100	Bournemouth		3	-
8080	Brighton		7	-
8150	Central Lancashire		2	-
8110	Coventry		12	-
8060	De Montfort		9	-
8010	Glamorgan		4	-
8040	Hertfordshire		2	-
8050	Huddersfield		2	-
8170	Kingston		-	-
8190	Lincolnshire & Humberside		-	-
8140	Manchester Metropolitan		7	-
8090	Nottingham Trent		11	1
8120	Oxford Brookes		14	-
8070	Plymouth		9	1
8020	South Bank		26	-
8030	Thames Valley		1	1
8180	University of Wales Institute, Cardiff		1	-
8130	Westminster		5	-
New university institutions total		116	3	-
All university institutions total		83,473	25,080	5,628

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, Dependants and Dependent Children
7113	Aberdeen Univ Research & Ind Services Ltd	2	-	-
7010	Animal Health Trust	37	4	-
7040	Arthritis Research Campaign	1	2	-
7178	Assessment and Qualifications Alliance	2	-	-
7154	Associated Examining Board	2	4	-
7011	Association of Commonwealth Universities	24	35	4
7108	Aston Techn Planning & Management Services Ltd	1	-	-
7067	Beatson Institute for Cancer Research	46	4	-
7084	BLCMP (Library Services) Ltd	3	3	-
7037	Brewing Research International	33	11	2
7012	British Glass Manufacturers' Confederation	-	6	1
7030	British Institute in Eastern Africa	2	1	-
7091	British Institute of Archaeology at Ankara	1	1	-
7112	British Institute of International & Comp Law	2	1	-
7097	British Psychological Society	3	-	-
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	4	1	-
7122	Burden Neurological Institute	3	-	-
7116	Cambridge Crystallographic Data Centre	28	3	-
7060	Cancer Research Campaign	9	8	-
7153	CASE	1	1	-
7015	College of Estate Management	23	18	10
7121	Committee of Vice-Chancellors and Principals	28	7	2
7100	Company of Biologists Ltd	-	-	-
7110	Council for British Research in the Levant	2	-	-
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, Dependants and Dependent Children
7145	Dartington Hall Trust	11	-	-
7055	East Grinstead Med Research Trust (Blond Labs Ltd)	2	1	-
7159	Edexcel Foundation	36	11	-
7164	Edinburgh Business School	9	-	-
7032	Edinburgh University Students' Association	7	3	-
7182	EIJUSERV	21	-	-
7089	Ewing Foundation	2	1	-
7120	Family Policy Studies Centre	-	-	-
7175	Freshwater Biological Association	3	-	-
7051	FSSU Secretariat	-	-	1
7041	Geographical Association	5	1	1
7152	Gray Laboratory	31	2	-
7148	Gyosei International College in the UK	27	-	-
7025	Henley Management College	48	27	5
7157	Higher Education Careers Service Unit	7	2	-
7135	Higher Education Statistics Agency Ltd	18	-	2
7053	History of Parliament Trust	24	4	-
7143	Homerton College	8	2	-
7170	Hull University Union	6	-	-
7036	Inns of Court School of Law	67	14	6
7079	Institute of Community Studies	7	5	1
7017	Institute of Development Studies	68	33	4
7056	Institute of Food Science & Technology	2	-	-
7029	Institute for Employment Studies	7	8	-
7124	International Institute of Biotechnology	1	-	-
7132	International Society (Manchester)	2	-	-
7149	International Students House	4	-	-
7054	Joint Library of Hellenic & Roman Societies	-	1	-
7147	JNT Association	26	3	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:

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS		PENSIONERS	
		Pensioner Members		Spouses, Dependants and Dependent Children	
7066	Journal of Endocrinology Ltd	-	1	-	
7177	Learning from Experience Trust	2	-	-	
2482	Lister Institute of Preventive Medicine	1	6	3	
7171	London Institute	1	-	-	
7168	London Mathematical Society	1	-	-	
7179	London School of Jewish Studies	4	-	-	
7117	Ludwig Inst for Cancer Research - Middlesex Branch	24	-	-	
7039	Ludwig Inst for Cancer Research - St Mary's Branch	11	3	-	
7090	Marie Curie Cancer Care	33	2	5	
7125	Marine Biological Association of the United Kingdom	17	-	-	
7026	Mathilda & Terence Kennedy Inst of Rheumatology	26	7	2	
7096	Modern Humanities Research Association	2	1	-	
7094	Motor Industry Research Association	58	39	7	
7059	Museum Documentation Association	-	-	-	
7114	Nat Collections of Ind & Marine Bacteria Ltd	3	3	-	
7018	National Inst of Economic & Social Research	20	9	1	
7080	Norfolk Agricultural Station (Morley Res Centre)	12	2	-	
7073	Northern College for Residential Adult Education	27	3	2	
7024	Northern Examinations and Assessment Board	36	19	6	
7146	Northern Ireland Council for Postgraduate Med & Dental Educ	4	1	-	
7115	Northern Ireland Economic Research Centre	14	-	5	
7048	Numerical Algorithms Group Ltd	67	1	1	
7155	Nuffield Trust	4	-	-	
7183	NYU in London	2	-	-	
7161	OMCRG	-	-	-	
7058	Open University Worldwide	16	4	-	
7023	Overseas Development Institute	34	6	-	
7118	Oxford Centre for Islamic Studies	4	-	-	
7031	Oxford Centre for Hebrew & Jewish Studies	11	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:

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS		PENSIONERS	
		Pensioner Members		Spouses, Dependants and Dependent Children	
7163	Oxford Policy Institute	1	-	-	
7104	Pain Relief Foundation	3	-	-	
7075	Policy Studies Institute	15	11	2	
7139	Preformation of Undergraduate Engineers	18	3	-	
7134	Prince of Wales's Institute of Architecture	4	2	-	
7162	Quality Assurance Agency	35	5	2	
7052	Reading University Students' Union	-	1	-	
7156	Regulatory Policy Institute	2	-	-	
7123	Richmond College	36	2	-	
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	93	28	9	
7021	Royal Geographical Society	4	3	1	
7082	Royal Institute of International Affairs	3	-	-	
7077	Royal Institution	14	7	-	
7158	Royal Northern College of Music	1	-	-	
7064	Royal Society	-	-	1	
7070	Royal Society of Edinburgh	2	2	-	
7022	Ruskin College	28	15	6	
7105	School Mathematics Project	5	2	-	
7130	Scottish Association for Marine Science	23	1	-	
7169	Society of Antiquaries of London	5	-	-	
7131	Southern Universities Management Services	7	3	-	
7180	Standing Conference of Principals Ltd	-	-	-	
7042	Strangeways Research Laboratory	6	7	3	
7049	Students' Union University of Leicester	1	2	1	
7138	Thrombosis Research Institute	25	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

No.	Name	MEMBERS		PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children	
7109	Trade Union Research Unit Ltd	1	—	—	
7173	Trinity College of Music	2	—	—	
7141	TUIREG	2	—	—	
7106	Universities and Colleges Admissions Service	24	10	3	
7166	UMIST Ventures Ltd	3	—	—	
7150	Universities and Colleges Employers Association	4	1	—	
7151	Universities and Colleges Staff Development Agency	4	4	—	
7184	University Council for the Education of Teachers	—	—	—	
7140	University of Leeds Innovations Ltd	8	—	—	
7129	University of Swansea Students' Union	1	—	—	
9999	USS Ltd	107	19	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	22	11	—	
—	Withdrawn institutions	—	43	25	
Non-university institutions total		1,669	531	131	
All institutions total		85,142*	25,611	5,759	

*Included in this figure (but counted once only) are 1,645 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 2000

Members	University Institutions	Non-University Institutions	Totals
Total members at 1 April 1999	80,037	1,590	81,627
New members	12,318	249	12,567
Retirements - Ill-health	156	2	158
- Other	1,385	35	1,420
Deaths	96	3	99
Leavers	617	4	621
- Refunds	131	2	133
- Transfers	—	—	—
- Deferred benefits and undecided	5,892	118	6,010
Withdrawals	326	5	331
- Refunds	—	—	—
- Transfers	—	—	—
- Deferred benefits	28	1	29
- Retrospective*	251	—	251
Total members at 31 March 2000	83,473	1,669	85,142

*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 2,421 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 1999	24,020	494	24,514
New pensioners	1,636	42	1,678
Deaths	576	5	581
Total pensioners at 31 March 2000	25,080	531	25,611

In addition at 31 March 2000, there were 5,027 pensions being paid to spouses and dependants and 732 annuities being paid to dependent children. Deferred pensioners not yet receiving a pension totalled 41,998.

FUND ACCOUNT for the year ended 31 March 2000

	Note	2000 £m	1999 £m
Contributions and Benefits			
Contributions receivable	3	522.7	481.1
Premature retirement scheme receipts		36.5	41.4
Individual transfers in		92.7	67.9
		651.9	590.4
Benefits payable	4	505.7	474.7
Leavers	5	20.7	23.3
Administration costs	6	6.5	6.4
		532.9	504.4
Net additions from dealings with members		119.0	86.0
Returns on investments			
Investment income	7	494.0	505.2
Change in market value of investments	8	2,559.1	882.0
Investment management expenses	9	(14.3)	(8.7)
Net returns on investments		3,038.8	1,378.5
Net increase in the fund during the year		3,157.8	1,464.5
Fund at start of year		18,815.3	17,350.8
Fund at end of year		21,973.1	18,815.3

STATEMENT OF NET ASSETS as at 31 March 2000

	Note	2000 £m	1999 £m
Investments			
Securities	11	19,664.0	16,729.7
Property	12	1,516.2	1,174.5
Life assurance policies	13	250.0	263.8
Cash deposits		454.4	492.0
Stockbroker balances	14	(41.1)	26.4
Net current assets	15	129.6	128.9
Total net assets, representing the fund balance		21,973.1	18,815.3

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 27 July 2000 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 2000

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

	2000	1999
	£m	£m
Main section		
Employers' contributions	349.8	321.7
Members' basic contributions	149.7	137.9
Members' additional voluntary contributions	14.5	13.5
	<hr/>	<hr/>
	514.0	473.1
Supplementary section		
Members' contributions	8.7	8.0
	<hr/>	<hr/>
	522.7	481.1

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:

	2000	1999
	£m	£m
Value at the start of the year	47.7	30.0
Contributions from members	19.8	17.5
Transfers in	0.4	0.3
Income from interest and bonuses	2.9	1.9
Payouts to members	(1.9)	(1.8)
Administration expenses	(0.2)	(0.2)
Value at the end of the year	68.7	47.7

4. Benefits payable

	2000	1999
	£m	£m
Main section		
Pensions	412.1	379.4
Lump sums on or after retirement	78.9	82.5
Lump sums on death in service	7.9	6.9
	498.9	468.8
Supplementary section		
Pensions	5.5	4.8
Lump sums on or after retirement	0.9	0.9
Lump sums on death in service	0.4	0.2
	6.8	5.9
	505.7	474.7

5. Payments on account of leavers

	2000	1999
	£m	£m
Individual transfers to other schemes	19.2	21.8
Payments for members joining state scheme	0.5	0.4
Refunds to members leaving service	1.0	1.1
	20.7	23.3

6. 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).

7. Investment income

	2000	1999
	£m	£m
Dividends from UK equities	287.7	253.4
Net property income	62.7	60.5
Dividends from overseas equities	45.5	46.2
Income from UK fixed interest securities	29.5	55.7
Income from overseas fixed interest securities	43.8	44.6
Income from index-linked securities	5.5	9.6
Interest on cash deposits	17.7	34.2
Other income	1.6	1.0
	494.0	505.2

8. Changes in market value of investments

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

	Purchases	Proceeds	Changes	Current
	during	of sales	in value	value
	the year	during	during	2000
	1999	at cost	the year	£m
	£m	£m	£m	£m
Securities	16,729.7	5,901.5	5,417.8	2,450.6
Property	1,174.5	333.0	52.3	61.0
Life assurance policies	263.8	1.7	54.1	38.6
Cash deposits	492.0	—	46.5	8.9
	18,660.0	6,236.2	5,570.7	2,559.1
Stockbroker balances	26.4	—	—	(41.1)
	18,686.4	6,236.2	5,570.7	21,884.6
				21,843.5

Changes in the value of investments comprise both realised gains/(losses) on investments sold during the year and unrealised gains/(losses) on investments held at the year end.

9. 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.

10. 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.

11. Securities

	2000 £m	1999 £m
Quoted		
UK equities	12,855.8	11,703.4
Overseas equities	5,223.6	3,376.7
UK fixed interest - public sector quoted	332.7	599.8
UK fixed interest - other	102.8	91.0
Overseas fixed interest - public sector quoted	662.8	568.2
Overseas fixed interest - other	254.0	174.4
Index-linked	232.3	216.2
	<u>19,664.0</u>	<u>16,729.7</u>

12. Property

	2000 £m	1999 £m
UK completed properties	1,318.8	1,058.3
UK developments in progress	197.4	116.2
	<u>1,516.2</u>	<u>1,174.5</u>
Properties analysed by type:		
Freehold	1,398.0	1,064.6
Leasehold	118.2	109.9
	<u>1,516.2</u>	<u>1,174.5</u>

The completed properties and developments in progress were valued independently by Colliers Erdman Lewis Ltd, chartered surveyors, as at 31 March 2000 and 31 March 1999.

13. 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.

14. Stockbroker balances

	2000 £m	1999 £m
Amount due to stockbrokers	(45.9)	(11.8)
Amount due from stockbrokers	4.8	38.2
	<u>(41.1)</u>	<u>26.4</u>

15. Net current assets

	2000 £m	1999 £m
Current assets		
Dividends receivable	82.3	91.8
Contributions due from institutions	60.3	57.8
Life assurance policy proceeds due	1.7	1.3
Other debtors	6.1	5.3
Cash at bank and in hand	11.7	8.9
	<u>162.1</u>	<u>165.1</u>

16. Current liabilities

	2000 £m	1999 £m
Property creditors	10.8	12.3
Benefits payable	10.2	10.7
Other creditors	2.9	11.5
Due to USS Ltd	8.6	1.7
	<u>32.5</u>	<u>36.2</u>
	<u>129.6</u>	<u>128.9</u>

16. 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.

	2000 £m	1999 £m
Value of stock on loan at 31 March	349.5	291.1
Value of collateral held at 31 March	367.0	310.1

17. Financial commitments

	2000 £m	1999 £m
Property		
Contracts placed but not provided for	78.1	199.9
Securities		
Forward commitments for unpaid calls on securities and underwriting contracts	7.6	1.4

18. Self investment

The scheme has no employer related investments as at 31 March 2000. Employer related investment occurred during the year from the late receipt of contributions due from institutions. At any time this was less than 0.015% of the scheme's net assets as at 31 March 2000.

19. 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 £6.5 million and £14.3 million respectively, with a balance due from the scheme of £8.6 million at 31 March 2000.

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

AUDITOR'S 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 the recommendations of the actuary. 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 the timing of those payments in order to provide us with reasonable assurance that contributions have been paid in accordance with the Scheme rules and the recommendations of the actuary.

Statement about contributions to the Scheme

In our opinion, the contributions payable to the Scheme during the year ended 31 March 2000 have been paid in accordance with the Scheme rules and the recommendations of the actuary.

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 2000, 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

27 July 2000

STATEMENT BY THE ACTUARY for the year ended 31 March 2000

- 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 my 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 14.0% 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 2000.
- 4 The purpose of the actuarial review is to compare the experience of the Scheme since the last valuation with the assumptions then made. 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 overall investment performance has been more favourable than the assumptions made at the 1999 valuation. This has acted to improve the funding position of the Scheme.
 - (b) Salary increases since the 1999 valuation have been slightly lower than those assumed in the valuation, thereby reducing the anticipated liabilities of the Scheme.
 - (c) Benefit improvements granted since the valuation have reduced the past service surplus, as has the continued 14% institutions' contribution rate.
- 6 The results of the review show that the overall financial position of the Scheme is expected to have improved since the 1999 valuation. The assets of the Scheme remain sufficient to cover the accrued liabilities as at 31 March 2000.
- 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
27 July 2000

M B Reid
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
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 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

23 March 2000

M B Reid

Fellow of the Institute of Actuaries

ACTUARIAL CERTIFICATE given for the purposes of Section 58 of the Pensions Act 1995
(Certification of Schedule of Contributions).

Initial certification of Schedule of Contributions.

Name of scheme: Universities Superannuation Scheme

Adequacy of rates of contributions

1. I hereby certify that, in my opinion, the rates of the contributions payable in accordance with this schedule of contributions are adequate for the purpose of securing that throughout the period it covers the scheme will meet the minimum funding requirement imposed by Section 56(1) of the Pensions Act 1995.
2. In forming this opinion I have complied with the requirements imposed by Sections 56(3) and 58 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.

William M Mercer Limited
Liverpool L2 3QB
22 May 2000

M B Reid

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

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Contributions and benefits					
Contributions	523	481	457	501	489
PRS receipts	37	41	56	46	40
Transfers in	92	68	90	31	24
	652	590	603	578	553
Benefits payable					
Pensions	417	384	348	313	282
Lump sums	88	91	103	90	72
Transfers out	20	22	18	22	14
Refunds	1	1	1	1	1
	526	498	470	426	369
Returns on investments (net of investment management costs)					
	480	497	494	505	449
Administration costs of the trustee (excluding investment management costs)					
	6.5	6.4	5.9	5.8	5.8
Changes in value of investments					
	2,559	882	3,062	931	1,637
Investments of the fund (at current values) at 31 March					
Securities	19,664	16,730	15,307	11,958	10,344
Property	1,516	1,175	910	840	783
Life assurance policies	250	264	282	274	277
Managed fund	—	—	—	—	78
Cash deposits	454	492	662	474	465
Stockbroker balances	(41)	26	80	3	27
	21,843	18,687	17,241	13,549	11,974
Membership numbers at 31 March					
Contributing members	85,100	81,600	78,700	76,900	74,700
Pensioners	31,400	29,900	28,200	26,100	24,200
Deferred pensioners	42,000	37,600	33,700	30,200	26,200
	158,500	149,100	140,600	133,200	125,100

REPORT OF THE DIRECTORS for the year ended 31 March 2000

The directors submit their report and the accounts for the year ended 31 March 2000.

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 £20,783,000 this amount being recoverable from USS. This compares with £15,135,000 for the year ended 31 March 1999.

The fund benefited from exceptional investment performance in the year to 31 December 1999 and this resulted in increased investment management costs. This is the reason for the significant increase in operating costs. Two managers in particular excelled, adding over £700 million to the fund through outperformance of the fund's benchmark.

The internally managed team was the best performing manager for the year. This resulted in bonus payments to investment staff of over £600,000, an increase of over 70% compared to the previous year.

The performance of the recently appointed external investment manager has also been exceptional and a provision of £6.1 million has been included in the accounts in respect of performance-related fees covering the 15 months to 31 March 2000.

Much effort has once again gone into computer-related projects during the year. All year 2000 projects were completed on time and staff attended both Liverpool and London office during the New Year holiday period to ensure that all systems were working satisfactorily. No problems were experienced and all systems were available to staff on 4 January 2000. The trouble-free roll-over into the year 2000 was as a result of two years work by the year 2000 project team during which time all systems were tested and non-compliant hardware and software replaced.

The new pensions payroll system went live in August 1999 as planned. Pensioners should have been entirely unaware of the change.

The year 2000 compliant platform for pensions administration went live in May 1999 and has proved to be extremely robust. The implementation of the Universal Pensions Management system from Comino (formerly ISE) is scheduled for July 2000. The system will provide faster and more accurate processing of pensions administration tasks and is being integrated to both the accounting and pensions payroll systems. It will also be less expensive to maintain than the previous system and will provide a suitable platform for offering services over the internet.

The extensive efforts of staff in working on these systems has not been without disruption to service levels. Staffing levels were increased during the year, on a temporary basis, to seek to reduce backlogs and improve service levels and to maintain these levels during the planned introduction and post-implementation phase of UPM.

Fixed assets

The details of movements in fixed assets are set out in Note 13 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 ID Trythall

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 or 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

27 July 2000

STATEMENT OF OPERATING COSTS for the year ended 31 March 2000

	Note	2000 £'000	1999 £'000
Personnel costs			
Employees' emoluments	4	4,933	4,211
Directors' emoluments and expenses	5	294	282
Recruitment, training and welfare		200	147
		5,427	4,640
Premises costs			
Rent, rates, service charges and utilities		1,408	1,286
Depreciation and maintenance		333	333
		1,741	1,619
Investment costs			
Securities management		10,075	4,702
Securities management rebates	6	(1,688)	(1,255)
Custodial services		1,243	1,166
Property management		872	725
Legal costs - property management		204	247
- securities management		(4)	9
- special investigation		141	(11)
Property valuation		129	128
Investment performance measurement		50	60
Costs met by third parties	7	(35)	(37)
		10,987	5,734
Other costs			
Computer and information services costs	8	1,220	1,337
Year 2000 costs	9	317	494
Professional fees	10	571	620
Office equipment		315	363
Travel and car costs		339	289
Telephones and postage		145	149
Institution liaison and member communication		166	117
Printing and stationery		117	116
IMRO membership		110	94
Pensions Act Levy		50	45
Insurances		41	43
Auditors' remuneration	11	39	38
Sundry expenditure		-	5
(Profit)/loss on disposal of fixed assets		(32)	(15)
Costs met by third parties	7	(770)	(553)
		2,628	3,142
Total operating costs - recoverable from USS	12	20,783	15,135

BALANCE SHEET as at 31 March 2000

	Note	2000 £'000	1999 £'000
Assets			
Fixed assets			
Tangible fixed assets	13	895	1,342
Current assets			
Debtors	14	9,245	2,500
Cash at bank and in hand		1	2
		9,246	2,502
Total assets		10,141	3,844
Liabilities			
Creditors - amounts falling due within one year	15	10,141	3,844
Total liabilities		10,141	3,844

The financial statements on pages 65 to 73 were approved by the board of directors on 27 July 2000 and were signed on its behalf by:

G J Davies
Chairman

C D Donald
Director

CASH FLOW STATEMENT for the year ended 31 March 2000

	Note	2000 £'000	1999 £'000
Operating activities			
Cash received from USS		13,880	13,698
Operating costs paid	16	(13,671)	(13,410)
Net cash inflow from operating activities		209	288
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(253)	(343)
Sale of tangible fixed assets		43	56
		(210)	(287)
(Decrease)/Increase in cash		(1)	1

NOTES TO THE ACCOUNTS for the year ended 31 March 2000

- 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 historic cost convention.

3. Accounting policies

Accounting convention

The accounts are prepared under the historic 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 33 1/3
Motor cars	25
Computer software	33 1/3

Year 2000

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

The average weekly number of persons employed by the company during the year (excluding directors) was

	2000	1999
	£000	£000
Staff costs for the above persons were:		
Wages and salaries	4,098	3,523
Social security costs (national insurance contributions)	414	304
Pension costs (superannuation contributions)	419	384
Restructuring costs	2	—
	4,933	4,211

The above costs include £144,000 (1999: £112,000) which is directly attributable to Year 2000 projects.

	2000	1999
	£000	£000
Emoluments of the chief executive	157	148

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 (1999: £13,300). These were paid at the standard rate for the scheme to December 1998, at which point they ceased except for an additional payments in respect of life assurance.

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

	2000	1999
	£000	£000
£50,001 - £60,000	1	5
£60,001 - £70,000	1	4
£70,001 - £80,000	3	2
£80,001 - £90,000	2	—
£90,001 - £100,000	3	—
£100,001 - £110,000	2	2
£110,001 - £120,000	—	1
£120,001 - £130,000	2	—
£140,001 - £150,000	1	1
£150,001 - £160,000	1	—
£200,001 - £210,000	—	1
£250,001 - £260,000	1	—
£310,001 - £320,000	—	1
£380,001 - £390,000	1	—

5. Directors' emoluments and expenses

	2000	1999
	£000	£000
Fees	245	224
Employer's costs - national insurance contributions	23	22
- VAT	4	7
Expenses	22	29
	294	282

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. Revised remuneration levels were introduced from 1 October 1998 in line with the recommendations of a consultant's report.

No pension contributions are made on behalf of directors. As at 31 March 2000 seven of the directors are members of USS either as pensioners or through their employment with the institutions.

	2000 £'000	1999 £'000
The emoluments of the chairman, who was also the highest paid director, amounted to:	37	33

The number of other directors whose annual emoluments fell into the following bands was:

	2000 £'000	1999 £'000
Nil - £5,000	—	1
£5,001 - £10,000	—	2
£10,001 - £15,000	3	5
£15,001 - £20,000	3	2
£20,001 - £25,000	3	1
£25,001 - £30,000	1	1
£30,001 - £35,000	1	—
£35,001 - £40,000	—	—

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. 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.

8. Computer and information services costs

	2000 £'000	1999 £'000
Investment information services	479	498
Computer running costs	307	283
Investment accounting services	204	201
Software depreciation	106	180
Hardware depreciation	95	152
Computer bureau fees	29	23
	<hr/> <hr/> 1,220	<hr/> <hr/> 1,337

9. Year 2000

	2000 £'000	1999 £'000
Computer software	51	295
Computer hardware	49	106
Software implementation and consultancy	210	85
Test equipment	7	8
	<hr/> <hr/> 317	<hr/> <hr/> 494

10. Professional fees

	2000 £'000	1999 £'000
Actuarial	268	189
Legal	122	126
Committee members (other than directors)	71	59
Taxation	59	20
Public relations	18	18
Information technology consultancy	11	29
Member medicals	9	13
Salary surveys	3	29
Other	10	11
Review of investment management structure	—	60
Review of casually employed staff at institutions	—	33
London office rent review	—	19
Investment research	—	14
	<hr/> <hr/> 571	<hr/> <hr/> 620

11. Auditors' remuneration

	2000 £'000	1999 £'000
USS	35	34
USS Ltd	4	4
	<hr/> <hr/> 39	<hr/> <hr/> 38

Remuneration of the company's auditors for provision of services other than for the audit of USS and USS Ltd was £56,550 for taxation advice (1999: £23,000).

12. Total operating costs - recoverable from USS

	2000 £'000	1999 £'000
Investment management costs	14,251	8,723
Other administration costs	6,532	6,412
	<hr/> <hr/> 20,783	<hr/> <hr/> 15,135

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 £689,000 (1999: £834,000).

13. Tangible fixed assets

	Alterations to Rented Premises £'000	Computer Equipment £'000	Computer Software £'000	Office Equipment £'000	Motor Cars £'000	Total £'000
Cost						
At 1 April 1999	1,649	1,175	1,799	1,111	348	6,082
Additions	—	23	169	8	53	253
Disposals	—	—	(507)	—	(74)	(581)
At 31 March 2000	1,649	1,198	1,461	1,119	327	5,754
Accumulated Depreciation						
At 1 April 1999	1,244	1,033	1,686	634	143	4,740
Charge for year	263	95	106	148	77	689
Disposals	—	—	(507)	—	(63)	(570)
At 31 March 2000	1,507	1,128	1,285	782	157	4,859
Net Book Value						
31 March 2000	142	70	176	337	170	895
Net Book Value						
31 March 1999	405	142	113	477	205	1,342

14. Debtors

	2000 £'000	1999 £'000
Due from USS	8,637	1,734
Other debtors	43	45
Prepayments	565	721
	9,245	2,500

15. Creditors - amounts falling due within one year

	2000 £'000	1999 £'000
Taxation and social security	141	107
Other creditors	2,252	1,683
Accrued expenditure	7,748	2,054
	10,141	3,844

16. Reconciliation of operating costs paid

	2000 £'000	1999 £'000
Operating costs - recoverable from USS	20,783	15,135
Depreciation	(689)	(834)
Profit on sale of tangible fixed assets	32	15
Increase/(decrease) in debtors (excluding USS)	(158)	97
Increase in creditors (excluding USS)	(6,297)	(1,003)
Operating costs paid	13,671	13,410

17. 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.

18. 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.

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. 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 total pension cost for the company was £419,000 (1999: £384,000). The contribution rate payable by the company was 14% of pensionable salaries and by the employees was 6.35% of pensionable salaries. The auditors and actuary to the Universities Superannuation Scheme have confirmed that it is appropriate to take the pension costs in the company's accounts to be equal to the actual contributions paid during the year. In particular, the contribution rate recommended following the 1999 valuation has regard to the surplus disclosed, the benefit improvements introduced subsequent to the valuation and the need to spread surplus in a prudent manner over the future working lifetime of current scheme members.

19. 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 £6.5 million and £14.3 million respectively, with a balance due from the scheme of £8.6 million at 31 March 2000.

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

We have audited the financial statements on pages 65 to 73 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.

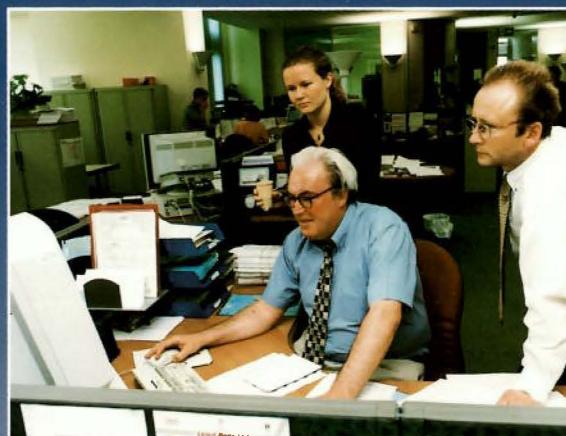
Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2000 and of its results and cash flow for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Liverpool
27 July 2000



Mrs Diane Brown,
Secretary to the Chief Executive.



Contribution Accounting staff -
Emma Robson, Bill Hammond and Ian Lambeth.



IT department staff in Liverpool -
Suzanne McClelland, Philip Moss and Alison Campbell.



Lyn D'Arcy, receptionist.



USS Institutions' meeting at BAFTA on 10 December 1999.



From left to right

Lord Mark Fitzalan Howard OBE
Chairmen
Investment Committee

Colin Donald
Chairman
Finance & General Purposes Committee

Professor Sir Graeme Davies
Chairman

Len Collinson
Chairman
Remuneration Committee

Inset from the top
Dr Christine Challis
Chairman
Audit Committee

Sir Kenneth Berrill
Chairman
Joint Negotiating Committee

Denis Linfoot OBE
Chairman
Advisory Committee



John P Williams
Company Secretary

Colin Hunter
Chief Accountant

David Chynoweth
Chief Executive

Peter Moon
Chief Investment Officer

Stewart Neil
Chief Pensions Manager

Robert Waldon
Surveyor

USS

USS

